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December 28, 2005

Chairman Ron Jones  
Tennessee Regulatory Authority  
460 James Robertson Parkway  
Nashville, Tennessee 37243

Re: Rebuttal Testimony of Thomas W. Sokol, Kevin P. Collins, John W. Mayo, Kent W. Dickerson and Brian K. Stahr - Docket No. 05-00240

Dear Chairman Jones:

Enclosed for filing in the above-referenced docket is the original and thirteen (13) copies of the Rebuttal Testimony of witnesses Thomas W. Sokol, Kevin P. Collins, John W. Mayo, Kent W. Dickerson (Confidential and Public Versions) and Brian K. Stahr (Confidential and Public Versions) on behalf of Sprint Nextel Corporation. Information marked as confidential is being filed under seal in a separate envelope and should be afforded the usual protections pursuant to the terms of the Protective Order entered on November 9, 2005. Under cover of this letter, copies of both versions of this filing are being served upon counsel for Communications Workers of America, AFL-CIO.

An extra copy of this letter is enclosed. Please stamp it "Filed" and return to me in the enclosed self-addressed stamped envelope. Should you have questions or concerns with this filing, please do not hesitate to contact me at your convenience.

Sincerely yours,

Edward Phillips

HEP:sm

Enclosures


cc: Don Scholes

## CERTIFICATE OF SERVICE

I hereby certify that I have served a copy of Sprint Nextel Corporation's Direct Testimony of Witnesses Thomas W. Sokol, Kevin P. Collins, John W. Mayo, Kent W. Dickerson and Brian K. Staihr upon counsel for Communications Workers of America, AFL-CIO by depositing a copy in the United States Mail, first-class postage prepaid.

This 28<sup>th</sup> day of December, 2005.

Donald L. Scholes  
Branstetter, Kilgore, Stranch & Jennings  
227 Second Avenue North, Fourth Floor  
Nashville, TN 37219

  
\_\_\_\_\_  
Edward Phillips  
Sprint Nextel Corporation

BEFORE THE TENNESSEE REGULATORY AUTHORITY

NASHVILLE, TENNESSEE

In the Matter of:	)	
	)	
Application of Sprint Nextel Corporation	)	Docket No. 05-00240
for Approval of the Transfer of Control of	)	
United Telephone-Southeast, Inc., Sprint	)	
Long Distance, Inc. and Sprint Payphone	)	
Services, Inc. From Sprint Nextel	)	
Corporation to LTD Holding Company.	)	

**REBUTTAL TESTIMONY OF THOMAS W. SOKOL IN SUPPORT OF THE  
APPLICATION OF SPRINT NEXTEL CORPORATION FOR APPROVAL OF THE  
TRANSFER OF CONTROL**

**\*\*\* PUBLIC VERSION \*\*\*  
(NO "CONFIDENTIAL" VERSION)**

1    **Q.     Please state you name and your business address.**

2    A.     My name is Thomas W. Sokol. My office is located at 707 E. Main Street, Suite  
3           1775, Richmond, Virginia.

4

5    **Q.     Did you file Direct Testimony in this docket on November 8, 2005?**

6    A.     Yes, I did.

7

8    **Q.     Mr. Sokol, what is the purpose of your Rebuttal Testimony?**

9    A.     In the Direct Testimony of Debbie Goldman, she makes several incorrect  
10          assertions regarding the service quality of United Telephone – Southeast, Inc.  
11          (“UTSE”). My Rebuttal Testimony will provide the Authority with accurate  
12          information regarding the current and historic levels of service provided by UTSE  
13          as well as why numbers of employees and network investments do not directly  
14          correlate to the quality of service provided. Also, I will provide an explanation  
15          why it is not necessary for the Authority to place additional service quality  
16          standards and reporting conditions on its approval of the transfer of control.

17

18   **Q.     Do you agree with Ms. Goldman’s statement that service has been**  
19          **deteriorating over the last seven years?**

20   A.     No, I do not agree, and through my testimony I will provide facts to refute this  
21          statement. Ms. Goldman claims to “demonstrate that the service quality provided  
22          by UTSE to consumers in recent years has deteriorated due to declining capital  
23          investment in the network and reductions in personnel.” (Confidential Direct

1           Testimony, page 3, lines 13-15). However, she has ignored the service measures  
2           considered most important by the Authority and the strong service quality track  
3           record of UTSE in Tennessee.

4  
5   **Q.   Do you have any comments regarding Ms. Goldman's use of two ARMIS**  
6   **measures in her testimony?**

7   A.   Yes, I do. Ms. Goldman focuses on two specific service measurements reported  
8       by UTSE to the FCC in the Company's annual ARMIS reporting, neither of  
9       which are required to be reported by the Authority's own rules. These are out-of-  
10      service repair interval and repeat trouble reports.

11  
12 **Q.   Does the Authority specify service quality measures independent of ARMIS?**

13 A.   Yes. In fact, rule 1220-4-2-.34 outlines specific service quality metrics for carrier  
14      reporting, focusing on those measures considered by the Authority to be "**most**  
15      **important** in determination of quality of telephone service." (emphasis added) In  
16      accordance with these rules, UTSE files service quality reports each quarter which  
17      provide exchange level, district level or company detail by month.

18  
19 **Q.   How has UTSE performed under the Authority's service quality rules?**

20 A.   UTSE has exceeded the Authority's service quality objectives for 99.7% of the  
21      reported measurements from January 2000 to November 2005. Ms. Goldman has  
22      ignored UTSE's specific Tennessee reported results provided in response to  
23      CWA's Data Requests 18 and 19 even though these are the service quality

1 measurements deemed most important under the Authority's rules. Also, to look  
2 at service quality results with a point in time approach, the average service quality  
3 results reported to the Authority for the year of 2000 and year to date through  
4 November 2005 indicate that each measure of service quality is essentially the  
5 same, if not improved in 2005.

6  
7 Specifically, an indicator of quality of service and the health of the Company's  
8 network is Trouble Reports per 100 Access Lines that UTSE provides to the  
9 Authority on a quarterly basis for each exchange for each month. In reviewing  
10 each exchange for each month for the entire period of 2000 through November  
11 2005, I am proud to say that we have met the service objective specified by the  
12 Authority for each exchange for each month 99.7% of the time.

13  
14 **Q. But Ms. Goldman claims that a reduced number of employees will reduce**  
15 **quality of service (Confidential Direct Testimony at page 21, lines 4-16).**  
16 **Does a reduction in number of employees automatically result in lesser**  
17 **service quality as she suggests?**

18 **A.** No as can be clearly shown by the facts in this case. While there has been a  
19 decrease in the number of UTSE specific employees in Northeast Tennessee, it  
20 has not resulted in a decline in service quality. In fact, as I mentioned earlier, the  
21 measures have essentially stayed the same or improved. For example, held  
22 applications dropped from an average of 3.2 in 2000 to .61 in 2005 through

1 November. This significant improvement in the quality of service provided to our  
2 customers directly counters Ms. Goldman's assertions.

3  
4 Another indicator of our quality of service is the number of customers who file  
5 complaints with the Authority. The complaints in 2000 were 152. The number of  
6 Authority complaints in 2004 was essentially half of that – 78 complaints filed  
7 against UTSE, despite a decline in the number of UTSE specific employees.

8  
9 **Q. Ms. Goldman's testimony discusses UTSE's capital construction**  
10 **expenditures for 2000 and 2004. Do the levels of capital expenditure**  
11 **demonstrate declining service quality as Ms. Goldman claims?**

12 A. No, they do not. Ms. Goldman's Confidential Direct Testimony at the top of page  
13 21 pulls data from UTSE's data request response to question 17. I think it is  
14 important not to focus just on the raw dollars, but to look at the facts that support  
15 the numbers. From late 1996 until 2000, UTSE had to expend additional capital  
16 dollars to support the boom of dial-up internet access resulting in a need for  
17 switching capability to accommodate long holding times and demand for second  
18 access lines. Since 2000, there has been a migration from dial-up internet access  
19 to ADSL and cable modem technology lessening the need for those expenditures.  
20 In addition, wireless substitution and competition have had an impact on our need  
21 for capital expenditures. Thus, there are many reasons for a decline in raw capital  
22 dollars that are unrelated to service quality.

1     **Q.     Has UTSE deployed capital to improve the efficiency and reliability of the**  
2           **Company's network?**

3     A.     Yes. UTSE's capital expenditures since 2000 have exceeded \$150 million  
4           making significant investment in infrastructure to support high speed data, to  
5           place fiber, and to improve the efficiency and reliability of the network. For  
6           everyone's benefit, I would like to highlight a few projects in which UTSE has  
7           invested to improve service and deploy new services since 2000:

- 8           a.     Collapsed two large circuit switched host offices onto the one
- 9                   Packet Switching platform, the next generation in switch
- 10                  technology
- 11           b.     Placed over 200 miles of fiber cable
- 12           c.     Installed a five node interoffice Gigabit Ethernet ring
- 13           d.     Placed an eleven node ATM Switch fabric
- 14           e.     Expanded remote centralized Special Services Circuits testing and
- 15                   network diagnostic capability
- 16           f.     Deployed ADSL to 150 sites expanding the availability of High
- 17                   Speed Internet access

18  
19       These projects have resulted in a network that is 100% digital and already  
20       migrating to packet technology, use of technology for more efficient switching  
21       and outside plant deployment and remote testing that allows the company to more  
22       quickly assess customers troubles with fewer and more accurate technician  
23       dispatch. Moreover, all of UTSE's exchanges are connected via fiber optic rings,  
24       further supporting the introduction or expansion of advanced high speed digital  
25       services. Furthermore, as a stand alone company LTD Holding Company will  
26       have even more incentive to invest in UTSE's network in Northeast Tennessee.

27

1     **Q.     Mr. Sokol, do you have any comments on Ms. Goldman's recommendations**  
2           **to the Authority as outlined on pages 23 and 24 of her Confidential Direct**  
3           **Testimony?**

4     A.     Yes, I do. Ms. Goldman is recommending that the Authority impose service  
5           quality levels and reporting requirements on UTSE that are required of no other  
6           carrier in the state. As I have previously stated, the Authority has explicit service  
7           quality rules and associated reporting requirements. These rules have been  
8           deemed sufficient by the Authority to meet the requirements of the Tennessee law  
9           for provision of telecommunications service. UTSE continually meets or exceeds  
10          these standards. As such, there is no need for additional service quality standards  
11          to be met, or for the burden of additional reporting requirements.

12  
13          One additional point is that Ms. Goldman obviously is not familiar with the  
14          Authority's current standards as Ms. Goldman has recommended reporting  
15          requirements for trouble reports. In accordance with the Authority's current  
16          service quality rules 1220-4-2-.39, UTSE is providing trouble report information  
17          by month by exchange to the Authority on a quarterly basis. As mentioned  
18          earlier, UTSE has met this service objective consistently since 2000. This  
19          information for 2000 through November 2005 has been provided to the CWA in  
20          response to CWA Data Request numbers 18 and 19.

21

22     **Q.     Mr. Sokol, do you have any final comments for the Directors?**

1     A.     Thank you, yes I do. The CWA's witness Ms. Goldman tries to portray a picture  
2           for UTSE's service quality that is false. UTSE has effectively balanced the  
3           number of employees and capital expenditures to insure quality service is being  
4           provided. As I have demonstrated in my testimony, UTSE has provided quality  
5           service to its customers in Tennessee as evidenced by the service quality reports  
6           filed with the Authority and will continue to do so under the same management  
7           team that is in place today. There is no demonstrable cause for the Authority to  
8           impose additional service quality standards or reporting requirements on UTSE as  
9           a condition of the separation.

10

11    **Q.     Does this conclude your Rebuttal Testimony?**

12    A.     Yes, it does.

BEFORE THE TENNESSEE REGULATORY AUTHORITY

NASHVILLE, TENNESSEE

In the Matter of:	)	
	)	
Application of Sprint Nextel Corporation	)	Docket No. 05-00240
for Approval of the Transfer of Control of	)	
United Telephone-Southeast, Inc., Sprint	)	
Long Distance, Inc. and Sprint Payphone	)	
Services, Inc. From Sprint Nextel	)	
Corporation to LTD Holding Company.	)	

**REBUTTAL TESTIMONY OF KEVIN P. COLLINS IN SUPPORT OF THE  
APPLICATION OF SPRINT NEXTEL CORPORATION FOR APPROVAL OF THE  
TRANSFER OF CONTROL**

**\*\*\* PUBLIC VERSION \*\*\*  
(NO "CONFIDENTIAL" VERSION)**

**SECTION 1: NAME/PURPOSE**

**Q. Please state your name and business address.**

A. My name is Kevin P. Collins. My business address is Houlihan, Lokey, Howard and  
Zukin Financial Advisors, Inc., 245 Park Avenue, 19<sup>th</sup> Floor, New York, NY 10167.

**Q. Are you the same Kevin P. Collins who previously filed Direct Testimony in this proceeding?**

A. Yes, I am.

**Q. What is the purpose of your Rebuttal Testimony?**

A. The purpose of my Rebuttal Testimony is to respond to statements made in the testimony of Ms. Debbie Goldman, who filed Direct Testimony in this proceeding on behalf of Communication Workers of America (“CWA”). The testimony was filed on December 7, 2005. In responding to this testimony, I will clarify certain misrepresentations presented by Ms. Goldman, as well as explain the flaws contained in various arguments she makes regarding the financial viability of the new LTD Holding Company (or “LTD”).

**SECTION 2: Ms. Debbie Goldman**

**Q. Ms. Goldman claims that LTD will be a financially weaker company after the separation (Goldman Direct, Confidential, page 22). In coming to that conclusion she expresses concern regarding the existence of negative shareholder equity**

1       **(Goldman Direct, Confidential, pages 10-11). Are her concerns regarding negative**  
2       **shareholder equity valid?**

3    A.    Not at all. In that discussion, Ms. Goldman is referring to book value of equity, rather  
4       than market value. As discussed in my Direct Testimony (Collins Direct, page 7), book  
5       value of equity is often a function of accounting conventions and historical accounting  
6       treatment and, for companies like LTD Holding Company, is not a directly applicable  
7       figure for either valuation purposes or for assessing a company's capital structure. Book  
8       value results from the myriad accounting rules and often has no direct correlation to  
9       market value. This can be observed in the marketplace where companies with negative  
10      book equity values have positive and substantial market equity values. There is generally  
11      little correlation between the market value of equity of a company, the true indicator of  
12      the value of a company, and the book value of equity. As demonstrated on Attachment  
13      KPC-3 to my Rebuttal Testimony, there is a lack of correlation between a company's  
14      market value of equity and book equity. For example, Proctor & Gamble, as of the date  
15      of the attachment, had \$132 billion of market equity value and less than \$19 billion of  
16      book equity value. In fact, Proctor & Gamble's book equity would have been negative  
17      had it not been for goodwill that is held on the balance sheet.

18  
19    **Q.    But Ms. Goldman suggests that shareholders would be concerned that, because of**  
20       **negative book equity, LTD would not be able to raise additional capital funds, and**  
21       **in the case of a downturn the company could go bankrupt and shareholders be left**  
22       **with nothing (Goldman Direct, Confidential, pages 14-15).**

PUBLIC VERSION

1 A. As discussed in my Direct Testimony (Collins Direct, pages 11-12), the ability of a  
2 company to raise financing is a function of a number of factors, including, but not limited  
3 to attractiveness of its business, leverage and capital market conditions. Based on the  
4 Company's forecasts and assuming market conditions are reasonably similar to those  
5 existing today, LTD Holding Company should maintain a substantial market equity value  
6 as well as numerous alternatives for accessing capital in the future. For companies such  
7 as LTD Holding Company, lenders and investors look at a company's earnings power  
8 and its credit metrics (i.e. debt/EBITDA) when considering investing capital and do not  
9 put material weight on the book value of equity. Regarding a potential alleged downturn  
10 in LTD Holding Company's business performance beyond the declines forecasted in the  
11 base case projections, I have performed an analysis ("Report to Sprint Nextel  
12 Corporation" at pages 65-73, attached to my Direct Testimony) which tests the impact of  
13 underperformance versus plan for LTD. Based on this analysis, it is my opinion that  
14 LTD should be able to pay and/or refinance its debts as they become absolute and mature.

15  
16 **Q. Based upon reading of the Testimony by Ms. Goldman, do your conclusions cited in**  
17 **your prior testimony change.**

18 A. No. There is nothing in my Direct Testimony that changes as a result of her  
19 testimony.

20  
21 **Q. Does this conclude your Rebuttal Testimony?**

22 A. Yes it does.

**ATTACHMENT KPC-3**

**Market v. Book Value of Equity Analysis, Select Companies**

**\*\*\* PUBLIC \*\*\***

**SPRINT-NEXTEL CORPORATION**  
Market v. Book Value of Equity Analysis  
Select Companies  
(\$ in millions)

Company	As of 3/31/05				As of 6/30/05			
	Market Value of Equity	Book Value of Equity	Goodwill Balance	BV of Equity less Goodwill	Market Value of Equity	Book Value of Equity	Goodwill Balance	BV of Equity less Goodwill
Cablevision Systems Corp	\$8,077.9	(\$2,722.4)	\$1,446.0	(\$4,168.4)	\$9,288.1	(\$2,481.1)	\$989.6	(\$3,470.7)
EchoStar Communications Corp	13,293.8	(1,829.8)	3.0	(1,832.8)	13,636.4	(972.1)	3.4	(975.5)
Cincinnati Bell Inc	1,044.3	(627.6)	40.9	(668.5)	1,037.4	(659.3)	40.9	(700.2)
Clorox Co	9,710.0	(346.0)	744.0	(1,090.0)	8,451.8	(555.0)	743.0	(1,296.0)
Lucent Technologies Inc	12,174.3	(479.0)	427.0	(906.0)	12,932.0	(70.0)	423.0	(493.0)
Procter & Gamble Co	\$132,203.2	\$18,730.0	\$20,286.0	(\$1,556.0)	\$130,445.5	\$18,475.0	\$19,816.0	(\$1,341.0)
General Mills Inc. <sup>(1)</sup>	18,942.6	5,292.0	6,711.0	(1,419.0)	17,306.1	5,144.0	6,675.0	(1,531.0)
Kellogg Co. <sup>(2)</sup>	17,554.1	2,290.6	3,445.5	(1,154.9)	18,436.3	2,477.4	3,445.5	(968.1)
Citizens Communications Co	4,405.5	1,326.9	1,921.5	(594.6)	4,614.0	1,318.9	1,921.5	(602.6)
CenturyTel Inc	4,311.0	3,429.2	3,433.9	(4.7)	4,498.7	3,443.1	3,444.2	(1.1)
Dell Inc <sup>(3)</sup>	\$85,054.9	\$5,624.0	\$0.0	\$5,624.0	\$97,735.1	\$5,509.0	\$0.0	\$5,509.0

Source: Company filings and Footstar

(1) Figures for 3/1/05 and 6/30/05 are as of 2/27/05 and 8/28/05 respectively due to different reporting periods.

(2) Figures for 3/1/05 and 6/30/05 are as of 4/2/05 and 7/2/05 respectively due to different reporting periods.

(3) Figures for 3/1/05 and 6/30/05 are as of 4/29/05 and 7/29/05 respectively due to different reporting periods.

BEFORE THE TENNESSEE REGULATORY AUTHORITY

NASHVILLE, TENNESSEE

In the Matter of:

)  
)  
) Application of Sprint Nextel Corporation  
) for Approval of the Transfer of Control of  
) United Telephone-Southeast, Inc., Sprint  
) Long Distance, Inc. and Sprint Payphone  
) Services, Inc. From Sprint Nextel  
) Corporation to LTD Holding Company. )

Docket No. 05-00240

**REBUTTAL TESTIMONY OF JOHN W. MAYO IN SUPPORT OF THE  
APPLICATION OF SPRINT NEXTEL CORPORATION FOR APPROVAL OF THE  
TRANSFER OF CONTROL**

**\*\*\* PUBLIC VERSION \*\*\*  
(NO "CONFIDENTIAL" VERSION)**

PUBLIC VERSION

1 **Q. Please state your name and business address.**

2 A. My name is John W. Mayo. My business address is Georgetown University,  
3 McDonough School of Business, Old North Building, 37<sup>th</sup> and O Streets, N.W.,  
4 Washington, D.C. 20057.

5

6 **Q. Have you testified before in this proceeding?**

7 A. Yes.

8

9 **Q. Have you reviewed the Direct Testimony of Ms. Goldman from the**  
10 **Communications Workers of America (CWA) regarding the proposed**  
11 **corporate restructuring of Sprint Nextel?**

12 A. Yes. She expresses a number of concerns ranging from the financial structure of  
13 the proposed restructuring to the quality of services that will be provided by the  
14 Applicant in the wake of the restructuring.

15

16 **Q. Did Ms. Goldman substantively address the benefits of the restructuring that**  
17 **you identified in your Direct Testimony?**

18 A. No. As I indicated in my Direct Testimony, a complete public interest assessment  
19 in this case requires not only a legal but also an economic lens through which to  
20 view the proposed restructuring. In this regard, I find that the proposed  
21 restructuring represents a very natural consequence of the firm seeking ways to  
22 organize itself in a manner that is most efficient. Similar restructurings have  
23 rather routinely been found to be favorably received by financial markets. The

PUBLIC VERSION

1 reasons for this favorable evaluation tend to include an increased ability of  
2 managers to more efficiently engage in decision making within their enterprises,  
3 the ability of managers to strategically focus on more manageable markets, and  
4 the ability to sharpen managerial incentives through refined, more targeted  
5 compensation schemes.

6 In the specific case at hand, these benefits are quite likely to occur as the  
7 separation will permit United Telephone - Southeast ("UTSE") and LTD Holding  
8 Company to focus more clearly on their core strategic assets – local customers;  
9 and for shareholders to more keenly discern the successes and failures of  
10 managers to nurture that asset base. As I noted in my Direct Testimony, "This  
11 heightened focus and reliance on its local customers for its financial success  
12 means that the company will have maximal incentives to create valued and  
13 innovative services for these customers" (page 8). Similarly, when separated  
14 from UTSE and its other local wireline companies, Sprint Nextel (with its strong  
15 wireless base) will have the opportunity to clearly and strategically turn toward  
16 pursuing telecommunications customers' patronage regardless of where they are  
17 located. And, for its part, UTSE will offer a portfolio of telecommunications  
18 services (including de novo wireless and long distance services and plans that are  
19 targeted at its local customer base), effectively increasing consumer choice and  
20 competition. Thus, the separation will certainly create benefits to Tennessee  
21 consumers by heightening competition for their business. In sum, this change in  
22 structure creates the considerable promise of a more efficient corporate  
23 organization and a more satisfied base of customers and shareholders.

PUBLIC VERSION

1           Unfortunately, Ms. Goldman has either ignored or convoluted these significant  
2           benefits.<sup>1</sup>

3

4   **Q.    Given, then, that Ms. Goldman does not directly address the affirmative**  
5           **benefits of the proposed restructuring, are you persuaded by her concerns**  
6           **that the proposed restructuring is not in the public interest?**

7   A.    No. Aside from the fact that her analyses virtually ignore the benefits I have  
8           described above, her concerns suffer from at least three fundamental  
9           shortcomings. First, the issues that she raises are often mis-framed. Second, her  
10          testimony engages in exactly the sort of arm-chair quarterbacking that I warned of  
11          in my Direct Testimony.<sup>2</sup> Finally, Ms. Goldman's policy perspectives and  
12          prescriptions are anachronistic. Consequently, I recommend that the Authority  
13          give little weight to her concerns.

14

15   **Q    You say that Ms. Goldman's concerns are often mis-framed. Can you**  
16          **provide an example?**

17   A.    Yes. Ms. Goldman (Confidential Direct Testimony at pages 20-22) argues that  
18          the quality of service for UTSE customers has been deteriorating and speculates  
19          that quality of service issues will worsen in the wake of the restructuring. Her  
20          argument, though, rests solely on a perceived financial inability of UTSE to invest  
21          in, and service, its network. While the financial strength of the restructured

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<sup>1</sup> Ms. Goldman offers no direct reference to my Direct Testimony

<sup>2</sup> See Direct Testimony of John W. Mayo, p. 5

## PUBLIC VERSION

1 company to fund necessary investment and maintenance projects is dealt with  
2 elsewhere,<sup>3</sup> it is important to point out that regardless of the current level of  
3 quality of service, the restructuring will significantly heighten the incentives for  
4 the local company, now exclusively enmeshed with its base of Tennessee  
5 customers, to provide high quality, and, as warranted, improved customer service.  
6 Specifically, once the restructuring occurs, the financial future of the company  
7 will be entirely dependent on its provision of high quality and attractive services  
8 to its local base of customers. Thus, the restructuring will strengthen incentives  
9 for the firm to provide the highest possible quality to its extant and potential  
10 customers. Thus, Ms. Goldman errs in her attribution of the proposed corporate  
11 restructuring to her entirely speculative future quality reductions. Apart from the  
12 public commitments of UTSE's management to quality and the assurances  
13 afforded from continued regulatory oversight, the restructuring itself should  
14 provide *increased* comfort that the firm will provide high quality service to its  
15 customers. Thus, to the extent that higher quality provision of services is a  
16 relevant issue, such concerns are actually mollified with the restructuring.

17  
18 **Q. Are there yet other examples in which Ms. Goldman mis-frames issues in this**  
19 **proceeding?**

20 **A.** Yes. Ms. Goldman (Confidential Direct Testimony at page 3) describes what she  
21 sees as a problem with the re-structuring plan. Specifically, she states that "LTD  
22 will be weaker as a stand- alone entity than it was as part of a diversified

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<sup>3</sup> See the testimonies of Sprint Nextel witnesses Kent W Dickerson and Brian K Stahr

## PUBLIC VERSION

1 communications company.” Her observation is, however, mis-framed in several  
2 respects. First, a dispassionate reading of the economic literature does not support  
3 Ms. Goldman’s apparent concerns about less diversified companies. A recent  
4 study begins with a summary of the extant literature: “Most studies in the  
5 empirical literature find a negative relationship between diversification and  
6 performance, either measured by profitability, productivity or stock market  
7 returns.”<sup>4</sup> The study (which examines the corporate strategies of leading  
8 European Union firms in the wake of the European economic integration) finds  
9 that when firms face increasingly competitive markets, the pursuit of efficiencies  
10 tends to drive them to refocus on their core markets and away from  
11 diversification.

12 Second, contrary to Ms. Goldman’s statement, there is no indication that  
13 LTD Holding Company will be any less diversified on a going-forward basis.  
14 The restructuring creates LTD Holding Company as a holding company within  
15 which a set of local exchange companies such as UTSE will continue to provide  
16 an entire portfolio of services, through a blend of outright ownership of assets  
17 (e.g., local exchange facilities) and contracts (e.g., long-distance and mobile  
18 telephony services). This ability to provide services in volatile and rapidly  
19 evolving markets without the commitment of the outright ownership of assets (a  
20 significant fraction of which may be economically sunk) is likely to significantly  
21 reduce the operational risk of LTD Holding Company. Thus, the restructuring

---

<sup>4</sup> See, Laura Rondi and Davide Vannoni “Are EU Leading Firms Returning to Core Business? Evidence on Refocusing and Relatedness in a Period of Market Integration,” Review of Industrial Organization, Vol 27, September 2005, pp 125-145 [footnote omitted].

PUBLIC VERSION

1 will permit the firm to continue to provide the full portfolio of services that  
2 consumers seek, but to do so through reduced operational risk.

3 Finally, with all due respect to Ms Goldman, she cannot confidently know  
4 that a stand-alone local exchange company such as LTD Holding Company will  
5 be weaker than a diversified firm. The entire technology, demand and regulatory  
6 dimensions of the telecommunications industry are in a matter of considerable  
7 flux and, as such, predictions regarding the “correct” firm structure are, I believe,  
8 beyond the grasp of objective, dispassionate students of the industry. Indeed, I  
9 am reminded that upon the divestiture of AT&T from the Bell operating  
10 companies, many believed that the Bell operating companies -- each operating as  
11 a “stand-alone local telephone company” -- would be at a significant disadvantage  
12 in the marketplace. Yet, twenty years later we see that those companies have  
13 emerged as highly successful enterprises.

14  
15 **Q. You mentioned the propensity of Ms. Goldman to engage in “arm-chair**  
16 **quarterbacking”. Can you provide an example?**

17 **A.** Yes. Ms. Goldman (Confidential Direct Testimony at page 18) states her concern  
18 that “[t]he trend in the communications industry is to provide bundles of local,  
19 long-distance, wireless, Internet access, and video services over one’s own  
20 network” and that, consequently, the restructured company “may not be able to  
21 survive and grow” (page 19). Such judgmental inferences regarding the  
22 advantages or disadvantages of the proposed restructuring extend well beyond

PUBLIC VERSION

1 what can be prudently inferred simply based on an observed industry “trend.”<sup>5</sup> As  
2 I emphasized in my Direct Testimony (pages 3-5, 9) different firms, positioned  
3 differently in the marketplace, with different core assets can be expected to adopt  
4 different strategic paths, especially in an industry as dynamic as  
5 telecommunications. What we can comfortably know is that UTSE will be a fully  
6 capable telecommunications provider for a base of Tennessee customers and will  
7 have heightened incentives to serve those customers well. Whether it owns or,  
8 alternatively, contracts to supply the panoply of services desired by these  
9 customers is, I believe, best left as a matter of managerial judgment, not  
10 regulatory fiat, as Ms. Goldman advocates.

11  
12 **Q. Are there other examples of arm-chair quarterbacking?**

13 **A.** Yes. Ms. Goldman suggests (Confidential Direct Testimony at pages 19-20) that  
14 the contracts for long-distance and wireless services that UTSE/LTD Holding  
15 Company is negotiating with Sprint Nextel represent a “sweetheart deal that  
16 should not be condoned by the Authority”. Such a call for prima facie rejection of  
17 these contracts is, however, completely unwarranted. In fact, the decision to  
18 purchase Sprint Nextel long-distance and wireless services creates an immediate  
19 benefit to both consumers and UTSE, relative to a costly search and  
20 implementation process for a de novo provider of these services, by ensuring

---

<sup>5</sup> My understanding is that CWA has acknowledged that Ms. Goldman’s assertion of a “trend” is devoid of any analysis, studies, calculations, or supporting documentation. Thus, the ability to draw “bottom line” conclusions regarding a phenomenon that she has not even documented seems especially suspect. See CWA response 13 to Sprint Nextel Corporation’s First Set of Interrogatories and Requests for Production of Documents to the Communications Workers of America, AFL-CIO.

PUBLIC VERSION

continuity of the underlying carrier for these services.<sup>6</sup> Moreover, in this instance this continuity is complemented by the price and quality protections afforded by the presence of actively competitive long-distance and wireless markets. Specifically, the fact that Sprint Nextel sells long-distance and wireless services in actively competitive markets ensures that its price and quality offerings for these services -- to wholesale customers such as LTD Holding Company -- will be beneficial for ultimate retail consumers. Indeed, in the case at hand, I understand that contracts will include a Most Favored Nations provision that will afford LTD Holding Company the lowest price available to similarly situated purchasers of Sprint Nextel services, thereby ensuring that LTD Holding Company will be in a position to offer the lowest prices possible to its customers for these services.<sup>7</sup> In sum, the fact that LTD Holding Company is ensuring the continuity of supply for long-distance and wireless with Sprint Nextel is not worrisome and should not be the basis for micro-regulating this restructuring.

**Q. How might the concerns expressed by Ms. Goldman reflect an anachronistic regulatory perspective?**

A. Ms. Goldman proffers a variety of “conditions” that she wishes to impose on the restructuring that are both anachronistic and, arguably, perverse to the public interest. For example, Ms. Goldman (Confidential Direct Testimony at pages 23-24) concludes that the restructuring be conditioned upon the new and additional

---

<sup>6</sup> See Rebuttal Testimony of Kent W. Dickerson at pages 3-6

<sup>7</sup> *Id.* at p 4

PUBLIC VERSION

1 regulatory requirements on the firm regarding, inter alia, its employment levels,  
2 its capital structure, its dividend payouts, and its purchasing processes for  
3 wholesale inputs. Such regulatory controls certainly would put the Authority into  
4 the position of micro-managing the business of UTSE and neither protects  
5 consumers nor the public interest. Extant regulatory oversight, including price  
6 and service regulation of UTSE, will continue in full force in the wake of the  
7 restructuring. Such regulatory oversight should be fashioned to promote and  
8 complement the efficiency of the firms they oversee. The imposition of Ms.  
9 Goldman's suggested mandated employment levels, mandated capital structure,  
10 and mandated contracting processes however, act to constrain the ability of the  
11 firm to seek the most efficient mode of operating and will be directly contrary to  
12 the pro-efficiency aims of modern regulatory oversight.

13

14 **Q. Does this conclude your Rebuttal Testimony?**

15 **A. Yes.**

BEFORE THE TENNESSEE REGULATORY AUTHORITY  
NASHVILLE, TENNESSEE

In the Matter of: )  
)  
Application of Sprint Nextel Corporation ) Docket No. 05-00240  
for Approval of the Transfer of Control of )  
United Telephone-Southeast, Inc., Sprint )  
Long Distance, Inc. and Sprint Payphone )  
Services, Inc. From Sprint Nextel )  
Corporation to LTD Holding Company. )

**REBUTTAL TESTIMONY OF KENT W. DICKERSON IN SUPPORT OF THE  
APPLICATION OF SPRINT NEXTEL CORPORATION FOR APPROVAL OF THE  
TRANSFER OF CONTROL**

**\*\*\* CONFIDENTIAL VERSION \*\*\***

1   **Q.     Please state your name, business address, employer and position.**

2   A.     My name is Kent W. Dickerson. My business address is 6450 Sprint Parkway, Overland  
3         Park, Kansas 66251. I am currently employed by Sprint United Management Company  
4         as Director – Cost Support. I have been offered and have accepted the position of  
5         Director – Cost Support with LTD Holding Company upon completion of the separation  
6         transaction.

7

8   **Q.     Are you the same Kent W. Dickerson who filed Direct Testimony in support of**  
9         **Sprint Nextel Corporation’s application filed in this docket?**

10  A.     Yes.

11

12  **Q.     What is the purpose of your Rebuttal Testimony?**

13  A.     My Rebuttal Testimony will address several of the erroneous analyses, conclusions and  
14         faulty recommendations contained within the Direct Testimony of Debbie Goldman filed  
15         in this docket on behalf of the Communications Workers of America (“CWA”).

16

17  **I.     Cash Flow Benefits From The Proposed Debt And Equity Financing Mix**

18

19  **Q.     Beginning at Page 9, Line 18 of Debbie Goldman’s Confidential Direct Testimony,**  
20         **Ms. Goldman claims the incremental increase in cash flow of [BEGIN**  
21         **CONFIDENTIAL] \$308 million described in your Direct Testimony is actually a**

1        **decrease in the range of \$137 million to \$169 million. [END CONFIDENTIAL] Is**  
2        **Ms. Goldman's analysis correct?**

3    A.    No. The fundamental error in Ms. Goldman's analysis is that it mixes the near term  
4        certainty of the cash flow benefits resulting from LTD Holding Company's proposed  
5        debt/equity financing mix with a potential future company decision as to how to best use  
6        those cash flow benefits. Only by limiting LTD Holding Company's options to her  
7        single assumed, and unrealistically limited, outcome of future repayment of debt is Ms.  
8        Goldman able to produce the mathematical result underlying her conclusion. The reality  
9        is that the increased cash available, as demonstrated in my Direct Testimony, could be  
10       put to numerous uses, only one of which is the repayment of debt.

11  
12       The increased cash flow benefits resulting from LTD Holding Company's proposed mix  
13       of debt and equity financing are indeed the [BEGIN CONFIDENTIAL] \$308 million  
14       [END CONFIDENTIAL] shown in adjustments No.1 and No. 2 on Attachment KWD-6  
15       of my Direct Testimony. Ms. Goldman's Direct Testimony offers no objection or  
16       correction to this mathematical result. Rather, Ms. Goldman attempts to add a  
17       discretionary and yet-to-be determined future outcome, whereby she assumes LTD  
18       Holding Company chooses to use those increased cash flow benefits resulting from the  
19       company's efficient debt and equity financing mix to repay outstanding debt. As  
20       discussed more fully in the Rebuttal Testimony of Dr. Brian K. Staihr, this prospective  
21       company financing decision and outcome is far from decided and is only one of several  
22       options LTD Holding Company will have available at that future time. Dr. Staihr's

1 Rebuttal Testimony correctly points out that it is entirely possible (and perhaps more  
2 likely) that LTD Holding Company may choose to efficiently maintain its level of debt  
3 financing and instead use the improved cash flow amount to make additional profitable  
4 investments in its core business.

5  
6 **Q. Do companies commonly choose to maintain efficient levels of debt in their overall  
7 financing mix over long periods of time?**

8 A. Yes. The evidence of this is easily seen in the analysis and report done by Houlihan,  
9 Lokey, Howard & Zukin (“Houlihan Lokey”) as sponsored by witness Kevin P. Collins.  
10 The Houlihan Lokey “Report to Sprint Nextel Corporation” at page 68, attached Mr.  
11 Collins’ Direct Testimony, shows the ratio of equity to total capital for the six (6)  
12 comparable companies that Mr. Collins used in his overall analysis. This data  
13 demonstrates the comparability of LTD Holding Company’s proposed debt and equity  
14 financing to those of six (6) comparable companies. The data on page 68 demonstrates  
15 the real world outcome of companies choosing to maintain an efficient use of both debt  
16 and equity financing versus seeking only to repay debt in the near term as assumed in Ms.  
17 Goldman’s flawed argument.

18  
19 **II. LTD Holding Company’s Complete Telecommunication Service Portfolio**

20  
21 **Q. In your Direct Testimony you discussed how the LTD Holding Company plans to  
22 use commercial agreements to purchase wholesale long distance and wireless**

1        **services from Sprint Nextel Corporation (Sprint Nextel) and thereby enable United**  
2        **Telephone – Southeast, Inc. (UTSE) to offer a full portfolio of telecommunication**  
3        **services. The testimony of Ms. Goldman concludes these long distance and wireless**  
4        **wholesale commercial agreements will result in customer harm. Do you agree with**  
5        **Ms. Goldman’s claim of “customer harm” and Ms. Goldman’s associated**  
6        **recommendation that LTD Holding Company be required to engage in a**  
7        **competitive bid process?**

8    A.    No, I do not. In fact, the opposite is the case. Our customers in Tennessee obviously will  
9        be advantaged by UTSE’s ability to sell a full portfolio of telecommunication services  
10       including long distance and wireless. Ms. Goldman’s Direct Testimony offers absolutely  
11       no support for the illogical assertion of customer harm resulting from those customers  
12       having the option to purchase long distance and wireless services (in addition to voice,  
13       data and video) from UTSE.

15   **Q.    How have the long distance and wireless wholesale commercial agreements been**  
16       **structured to ensure LTD Holding Company is getting the best available pricing?**

17   A.    Both of these commercial agreements contain an important and beneficial feature  
18       whereby the LTD Holding Company is assured the best available wholesale prices  
19       offered by Sprint Nextel. This is accomplished via language in both commercial  
20       agreements which are Most-Favored Nation (“MFN”) low price guarantees. There is no  
21       basis in fact for Ms. Goldman’s claim of customer harm.

1   **Q.   Beyond the ability to secure low price guarantees through MFN contract provisions,**  
2       **what additional factors were considered in LTD Holding Company's negotiations of**  
3       **the long distance and wireless wholesale commercial agreements?**

4   **A.**   Speaking first to the long distance commercial agreement, there were numerous criteria  
5       which were considered in the decision to enter into the commercial agreements with  
6       Sprint Nextel. Those important criteria included billing, provisioning, network  
7       reliability, customer service, breadth of products as well as pricing. Sprint Nextel's  
8       wholesale long distance product compares quite favorably with competitive alternatives  
9       when all the necessary factors are considered. Additionally, the objective of a near term  
10      seamless customer experience associated with separating LTD Holding Company from  
11      Sprint Nextel was yet another critical factor supporting the decision to contract this  
12      business with Sprint Nextel. The current bundled local and long distance service  
13      purchases across LTD Holding Company's serving area, (including Tennessee),  
14      constitutes [BEGIN CONFIDENTIAL] 3.2 million [END CONFIDENTIAL]  
15      customers today. This necessitates requiring the immediate capability to maintain  
16      consistency for those customers in terms of their long distance and local service  
17      availability, pricing, ordering, provisioning, billing, and customer service offerings. This  
18      key objective of ensuring a seamless customer experience was yet another driver in the  
19      overall logical and financially sound decision to contract the wholesale purchase of long  
20      distance and wireless with Sprint Nextel. Thus, contrary to unsupported and  
21      inflammatory conclusions of Ms. Goldman, the customers of UTSE, through LTD  
22      Holding Company, stand to benefit most from the chosen course of action planned.

1  
2 Moving now to the wireless commercial agreement, there is an obvious over-riding issue  
3 that was logically considered, namely, the degree to which a potential wholesale wireless  
4 provider's geographic service availability matches the geographic serving area of LTD  
5 Holding Company's local customer base (including UTSE). By comparing the wireless  
6 network coverage areas of Alltel, Cingular, T-Mobile, Verizon to that of Sprint Nextel, it  
7 was recognized that Sprint Nextel was best in class for this most critical of all issues (that  
8 being the ability to offer wireless service to LTD Holding Company's local customers).  
9 Sprint Nextel's wireless network coverage equates to a potential LTD Holding Company  
10 customer market which exceeds that of their competitors, within the LTD Holding  
11 Company serving area. Additionally, Sprint Nextel is the acknowledged industry leader  
12 in Mobile Virtual Network Operator ("MVNO") wholesale service arrangements as well  
13 as the leader in data service product availability and innovation. These facts, along and  
14 with the MFN low price guarantees, ensure customers benefit resulting from UTSE's  
15 ability to market long distance and wireless products to those customers. I urge the  
16 Authority to reject CWA's requested condition to delay these benefits by requiring an  
17 unnecessary and ill-advised competitive process at this time.  
18

19 **III. Asset Assignment to LTD Holding Company**  
20

1   **Q.     Starting at page 6, line 5 of her Confidential Direct Testimony, Ms. Goldman**  
2       **presents an argument wherein she concludes the applicant's proposed asset**  
3       **assignment to LTD Holding Company is not "fair and equitable". Do you agree?**

4   **A.     No I do not. In fact, LTD Holding Company will receive all the assets reasonable and**  
5       **necessary for it to continue the quality service provided across its eighteen (18) state**  
6       **territory (including Tennessee) today.**

7  
8       The error in Ms. Goldman's conclusion of inequitable asset allocation is rooted in her  
9       flawed comparison of LTD Holding Company assets to the total balance sheet of Sprint  
10      Nextel post merger. This overly simplistic comparison fails to consider that the vast  
11      majority of the Sprint Nextel post merger balance sheet is either newly created  
12      intangibles (including Goodwill associated with recording the recent merger of Sprint and  
13      Nextel), or wireless assets, including those newly contributed wireless assets from  
14      Nextel. This is easily seen Ms. Goldman's CWA Exhibit 4 at page 2 of 3 which shows  
15      total Sprint assets of \$41 billion as of December 21, 2004 prior to merger with Nextel.  
16      This \$41 billion in assets rose to the \$101 billion used in Ms. Goldman's erroneous  
17      comparison only as a result of the recent merger between the wireless interests of Sprint  
18      and Nextel and the associated creation and recording of intangibles including Goodwill.  
19      In fact, effectively the entire account balances for Intangibles of \$49.5 billion clearly  
20      have no association with or use to the LTD Holding Company, its necessary assets or its  
21      operation but rather are 100% attributable to wireless. (See CWA Exhibit 4, at page 2 of

CONFIDENTIAL VERSION

1 3, Total Net Intangibles which make up essentially half of the \$101 billion in total  
2 assets.)

3  
4 As I explain further below, comparisons of asset book balances are not the best test of  
5 whether LTD Holding Company is receiving the assets necessary and logical for its  
6 operation. Even under the approach used by Ms. Goldman I would point out that had she  
7 more logically compared the LTD Holding Company assets of \$9.6 billion to the \$41  
8 billion in total Sprint assets which existed just prior to the merger with Nextel she would  
9 have computed a relationship of 23.4%. This relationship is a very near match to the  
10 relative relationship of approximately 7.7 million LTD wireline customers to total Sprint  
11 customers of 29.2 million (including 21.5 million Sprint wireless customers) equating to  
12 26.4%.

13  
14 **Q. Is the proposed asset assignment to LTD Holding Company reasonable and**  
15 **adequate for it to continue the services and quality that it provides today?**

16 A. Absolutely. In fact the \$9.6 billion in assets assigned to LTD Holding Company at  
17 separation are effectively the exact same assets used by the individual local operating  
18 telephone companies (OTCs, e.g. UTSE) to provide service today. All of the assets  
19 which appear on the individual balance sheets of the individual OTCs will transfer with  
20 the LTD Holding Company upon separation. Said differently there are no OTC assets  
21 which will remain with Sprint Nextel upon separation. Thus it is impossible to support  
22 the erroneous conclusion reached by Ms. Goldman. The assets proposed for assignment

1 to LTD Holding Company upon separation are in fact reasonable, equitable and all that  
2 are necessary to continue the provision of high quality service and financial results which  
3 underlie those assets today.

4  
5 **IV. Pension Plan Assets and Liabilities**

6  
7 **Q. Starting at page 16, line 13 of her Confidential Direct Testimony, Ms. Goldman**  
8 **urges the Authority to set conditions whereby it would oversee the allocation of**  
9 **existing pension plan assets and liabilities and that such allocation be done to fully**  
10 **fund the LTD's prospective pension liabilities. Has Ms. Goldman presented any**  
11 **evidence in her Direct Testimony that such regulatory oversight is appropriate or is**  
12 **necessary?**

13 **A.** No. The applicant's predecessor company, Sprint Corporation, has had a long and well  
14 established track record concerning both its adherence to governing IRS regulations and  
15 its commitment to employees through proper management and funding of the pension  
16 plan for employees and retirees. The factual evidence of this can be seen in UTSE's  
17 response to Data Request 26 of the CWA's First Set of Data Requests to Sprint Nextel,  
18 which I have included as Attachment KWD-8 to this Rebuttal Testimony. The response  
19 contains an independent Actuarial Valuation Report of the Sprint Retirement Pension  
20 Plan dated July 2005 performed by Watson Wyatt Worldwide.

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1 In referencing Attachment KWD-8, I would first draw attention to the independent  
2 actuaries' conclusion on page 1, which states "In our opinion, all methods, assumptions  
3 and calculations are in accordance with requirements of the Internal Revenue Code and  
4 ERISA, and the procedures followed and presentation of results are in conformity with  
5 generally accepted actuarial principles and practices." Looking next at page 6 of this  
6 report and the section titled "Funded Ratios", the reader can see that all three of the  
7 pension asset to liabilities valuation comparisons presented support a conclusion of a  
8 securely funded pension plan. Ms. Goldman's vague references to the pension funding  
9 problems of Lucent and Global Crossing clearly have no bearing or weight given the  
10 verifiable, independent financial security of Sprint's pension plan assets and liabilities as  
11 demonstrated in this independent actuarial review and report.

12  
13 As I explained above, Ms. Goldman has failed to demonstrate that a condition is required  
14 because the factual circumstances of these other instances are not applicable or relevant  
15 to LTD Holding Company, particularly in light of our historical track record.

16 Nonetheless, I have also included at Attachment KWD-9 to this Rebuttal Testimony to  
17 further support our position that the condition requested by Ms. Goldman -- *i.e.*,  
18 regulatory conditions that impose additional Authority oversight regarding the allocation  
19 of pension assets and liabilities -- is unnecessary and inappropriate on a prospective basis.  
20 Attachment KWD-8 is an affidavit signed by the LTD Holding Company's Chief  
21 Financial Officer -- Designee Mr. Gene M. Betts. This Senior Officer of the LTD  
22 Holding Company reiterates the applicant's commitment to an equitable allocation of

1 pension plan assets and liabilities that complies with all applicable governing laws and  
2 rules and continues the legacy of a financially secure pension plan for LTD Holding  
3 Company employees and retirees. I believe that Attachment KWD-8 allows the  
4 Authority to proceed with the requested separation transaction approval without the need  
5 for the condition requested (but not otherwise supported) in Ms. Goldman's Direct  
6 Testimony.

7  
8 **Q. Mr. Bett's affidavit states that Sprint Nextel's spinoff of pension plan assets and**  
9 **liabilities will comply fully with the Internal Revenue Service Section 414(l). Are**  
10 **you familiar with Section 414(l) and if so can you please summarize its**  
11 **requirements?**

12 A. Yes, I would be glad to do so. The title of Section 414(l) is descriptive and helpful in and  
13 of itself and reads as follows, "Merger and consolidations of plans or transfers of plan  
14 assets". As this title implies this IRS code governs the transfers of pension plan assets  
15 and liabilities between plans such that each resulting plan receives a level of assets and  
16 liabilities which ensures that each plan participant will receive the pension benefit he or  
17 she was entitled to immediately before the merger, consolidation or transfer. A  
18 company's compliance with this governing IRS requirement is reviewed and evidenced  
19 by the company's filing with the IRS a Form 5310-A which describes the assignment of  
20 plan assets and liabilities in compliance with applicable regulations including 414(l). It is  
21 helpful to further note that this report will be prepared by the independent actuarial firm  
22 of Watson Wyatt Worldwide. Thus Mr. Bett's affidavit evidences Sprint Nextel's

1 commitment to conduct the plan assets and liabilities transfers and associated filings with  
2 the IRS in compliance with governing laws, rules and regulations. No further oversight  
3 or conditions are necessary.

4  
5 **Q. Would CWA's requested condition to assign pension plan assets based on**  
6 **prospective pension liabilities comply with the governing IRS regulation 414(l) you**  
7 **just explained?**

8 A. No it would not. The fact that CWA continues to request such an approach indicates a  
9 lack of understanding for the subject matter and further evidences why this issue is best  
10 left to the combined expertise and oversight of the IRS and Watson Wyatt Worldwide.

11  
12 **Q. Have these same assurances and explanations you provide in this Rebuttal**  
13 **Testimony been previously communicated to CWA in other states associated with**  
14 **proposed separation transaction?**

15 A. Yes. I provided these same information items and assurances in my testimony in  
16 Pennsylvania. It is noteworthy that this information was satisfactory to CWA such that  
17 they withdrew their originally requested condition relative to pension plan asset  
18 assignment from that case (effectively the same condition CWA now requests in  
19 Tennessee). I have included the applicable section of the Pennsylvania Public Utilities  
20 Commission hearing transcript as Attachment KWD-10 to this Rebuttal Testimony. Mr.  
21 Scott Rubin provided legal representation for CWA at the Pennsylvania hearing and his  
22 statement reads as follows:

CONFIDENTIAL VERSION

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14

“Mr. Rubin: Thank you, you Honor. As an initial matter, CWA has considered the testimony of Mr. Dickerson this morning concerning the pension issue and has reviewed that with CWA’s in-house pension experts during the lunch break. As a result of Mr. Dickerson’s representations today and the affidavit for Mr. Bett’s that’s attached to Mr. Dickerson’s rejoinder, CWA will not be contesting the applicants proposed pension allocation and will not be seeking any commission action on that issue. “

I therefore urge this Authority to ignore the unnecessary and unworkable condition for pension asset assignment put forth by Ms. Goldman.

**Q. Does this conclude your Rebuttal Testimony?**  
**A. Yes.**

**ATTACHMENT KWD-8**

**Actuarial Valuation Report of the Sprint Retirement Pension Plan,  
July 2005, Watson Wyatt Worldwide**

**\*\*\* CONFIDENTIAL \*\*\***

Tennessee Regulatory Authority, Docket No. 05-00240  
Application of Sprint Nextel Corporation for Approval of the Transfer of Control of  
United Telephone-Southeast, Inc.; Sprint Long Distance, Inc.; and Sprint Payphone  
Services, Inc. from Sprint Nextel Corporation to LTD Holding Company  
CWA Data Request No. 1

**DATA REQUEST 26:**

Question: Please provide a copy of the most recent actuarial report(s) for the  
pension funds that relate to UTSE and other LTD employees.

---

**RESPONSE:**

Without waiving any specific or general objections, Applicant responds as follows:

Please see **Attachment CWA 26** for the most recent Sprint Retirement Pension Plan  
actuarial report dated July 2005 from Watson Wyatt. The attachment is **Confidential**.

# **Actuarial Valuation Report**

## **Sprint Retirement Pension Plan**

**Pension Contribution—01/01/2005**

**July 2005**

**WWW.WATSONWYATT.COM**

***Actuarial Valuation for Purposes of  
Determining Contributions for the Plan  
Year Beginning January 1, 2005***

**HIGHLY  
CONFIDENTIAL**



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## PURPOSE AND ACTUARIAL STATEMENT

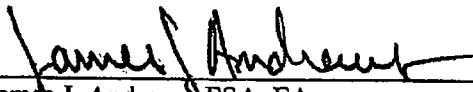
As requested by Sprint, this report documents the results of an actuarial valuation of the Sprint Retirement Pension Plan. The primary purpose of this valuation is to determine contribution requirements for the plan under the Internal Revenue Code for the plan year beginning January 1, 2005, and the tax year ending December 31, 2005. In addition, the report develops plan accounting information under Statement of Financial Accounting Standards No. 35. This report should not be used for other purposes, distributed to others outside Sprint or relied upon by any other person without prior written consent from Watson Wyatt Worldwide

In preparing this valuation, we have relied upon information and data provided to us by Sprint and other persons or organizations designated by Sprint. An audit of the financial and participant data provided was not performed, but we have checked the data for reasonableness as appropriate based on the purpose of the valuation. We have relied on all the information provided, including plan provisions and asset information, as complete and accurate.

The valuation summarized in this report involves actuarial calculations that require assumptions about future events. We believe that the assumptions and methods used in this report are reasonable and appropriate for the purposes for which they have been used.

In our opinion, all methods, assumptions and calculations are in accordance with requirements of the Internal Revenue Code and ERISA, and the procedures followed and presentation of results are in conformity with generally accepted actuarial principles and practices. Sprint was responsible for the selection of the actuarial cost and asset valuation methods.

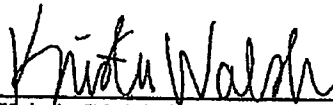
The undersigned consultants of Watson Wyatt Worldwide with actuarial credentials meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinions contained herein. There is no relationship between Sprint and Watson Wyatt Worldwide that impacts our objectivity.



James J. Andrews, FSA, EA  
Consulting Actuary



Denise Patterson, FSA, EA  
Consulting Actuary



Kristin Walsh, EA  
Consultant

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*SECTION I*

*SUMMARY OF KEY RESULTS*

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## SUMMARY OF KEY RESULTS – Contributions

### *Permitted Contribution Range<sup>1</sup>*

Important contribution amounts for this year and last year are shown below:

Plan Years Beginning:	01/01/2005	01/01/2004
Tax Years Ending:	12/31/2005	12/31/2004
Minimum Required Contribution	\$ 0	\$ 0
Maximum Deductible Contribution <sup>2</sup>	1,643,948,985	1,204,069,742
Contribution to Obtain Next Year's FFL PBGC Variable Rate exemption	0	0

The sponsor's funding policy has been generally to make sufficient contributions to maintain a 90% funded position, but not less than the minimum required contribution nor more than the maximum deductible contribution for the plan year. Under this policy, the expected contribution for the plan year beginning in 2005 is zero. A contribution of \$300,000,000 was made for the prior plan year, but is deducted for the 2005 plan year.

### *Minimum Contribution Schedule*

A schedule of employer contributions for the current and prior plan years deposited on or after January 1, 2005 is shown. Contributions reported to have been paid (or scheduled to be paid) are included, plus any additional contributions for the current plan year required to meet minimum funding standards.

Plan Years Beginning:	01/01/2005	01/01/2004
Reported January 7, 2005		\$ 300,000,000

<sup>1</sup> Amounts may depend on timing of contributions during the year. The total minimum required contribution amounts shown on this page assume contributions are made on the dates shown in the Minimum Contribution Schedule.

<sup>2</sup> This is the maximum deductible limit based on our understanding of section 404(a)(1) of the Internal Revenue Code and the plan sponsor's tax policy. Additional limits on deductible contributions may apply under section 404(a)(7) of the Code if the plan sponsor maintains one or more defined contribution plans and one or more defined benefit plans covering the same participants.



## SUMMARY OF KEY RESULTS – Comments on Results

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### *Plan Provisions and Assumptions*

Appendix A outlines the assumptions and methods used in the valuation. The mortality assumption was updated to better reflect the anticipated experience of the Sprint population. Effective with this valuation, 80% of those eligible for GTE or US Sprint benefits are assumed to elect a lump sum payment of such benefits. The actuarial equivalence for the conversion is based on an assumed interest rate of 5.25%. The increase in unfunded actuarial accrued liability due to these changes is \$28,776,498 under the funding method.

Appendix B outlines the principal provisions of the plan being valued. The valuation reflects negotiated benefit changes effective on or before December 31, 2004 as well as changes in the maximum pension and pensionable earnings limits. The increase in unfunded actuarial accrued liability due to changes in the provisions valued is \$5,508,656 under the funding method. The normal cost increased by \$217,701. An amortization base was equal to the change in unfunded actual accrued liability is established and is amortized over 30 years. To our knowledge, no additional changes are pending.

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### *Comments on Results*

The actuarial loss due to demographic experience and asset return different from assumed during the prior year was \$308,815,177. The components of this loss are a loss of \$265,700,506 due to investment results and a loss of \$43,114,671 from sources related to plan liabilities.

The rate of return on the market value of assets during 2004 was 11.68%, a return in excess of the expected 8.00%. However, the rate of return on the actuarial value of assets was only 1.03% due to the smoothing method recognition of losses deferred in prior years. As of January 1, 2005, the actuarial value of assets is 102.0% of the market value. The contribution of \$300 million made on January 7, 2005 is recognized for the 2004 plan year for minimum funding purposes, but will be deducted in the 2005 tax year.

The liability loss is 1.3% of total expected liabilities and is primarily due to Special Early Retirement benefits and deferred termination benefits payable as a result of workforce reductions during the 2004 plan year. While the number of active participants decreased by 7,834, from 59,648 to 51,814, the total number of participants only decreased by 2,229, from 105,279 to 103,050 (including "conditional" deferred vested participants of 134 in 2004 and 638 in 2005).

## SUMMARY OF KEY RESULTS – Participant Information

### Participant Information (Section II)

Participant data used in the actuarial valuation for the plan year beginning January 1, 2005 are summarized below along with comparable information from one year ago:

Plan Years Beginning:	01/01/2005	01/01/2004
<b>Participating Employees</b>		
Number	51,814	59,648
Average Annual Plan Compensation Limited by IRC 401(a)(17)	\$ 60,820	\$ 58,701
Average Attained Age	41.65	40.90
Average Credited Service	10.99	10.02
Average Accumulated Benefit	\$ 3,844	\$ 3,435
<b>Participants with Deferred Benefits<sup>1</sup></b>		
Number	30,734	26,773
Average Annual Deferred Benefit	\$ 5,705	\$ 5,569
<b>Participants Receiving Benefits</b>		
Number	19,864	18,724
Average Annual Benefit Payments	\$ 9,068	\$ 8,952

<sup>1</sup> Excludes "conditional" deferred vesteds resulting from the Sprint Spectrum, 360° Commissions, Service Centers for IBM and Convergys, and Global One Spinoffs.



## SUMMARY OF KEY RESULTS – Assets and Liabilities

**Plan Assets** (Section III, Exh. 4 & 5) The market value of assets and actuarial (smoothed) value of assets are shown below along with approximate rates of return.

Plan Years Beginning:	01/01/2005	01/01/2004
<b>Value of Assets<sup>1</sup></b>		
Market Value	\$ 3,978,376,345	\$ 3,476,193,240
Actuarial Value	4,056,238,559	3,907,167,219
<b>Rate of Return on Assets</b>		
Market Value	11.68%	20.08%
Actuarial Value	1.03%	11.13%

**Plan Liabilities** (Section III) A summary of key measures of plan liability is shown below along with comparable information from last year.

	Plan Years Beginning:	01/01/2005	01/01/2004
(Exh. 2)	Present Value of Benefits	\$ 4,301,066,479	\$ 4,126,124,627
	Actuarial Accrued Liability	3,411,416,776	3,187,043,864
	Normal Cost	80,443,933	83,158,435
	Interest Rate	8.00%	8.00%
(Exh. 3)	RPA'94 Current Liability	\$ 4,192,683,931	\$ 3,693,009,062
	Interest Rate	6.10%	6.55%
(Exh. 8)	Present Value of Accumulated Benefits	\$ 3,231,346,041	\$ 3,001,342,379
	Interest Rate	8.00%	8.00%

**Funded Ratios** Several key ratios for the current and prior year that measure the plan's funded status are as follows:

Plan Years Beginning:	01/01/2005	01/01/2004
Actuarial Value of Assets to Actuarial Accrued Liability	118.90%	122.60%
Actuarial Value of Assets to RPA'94 Current Liability	96.75%	105.80%
Market Value of Assets to Present Value of Accumulated Benefits	123.12%	115.82%

<sup>1</sup> Asset values shown include any receivable contributions payable at the end of the prior plan year.



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***SECTION II***  
***PARTICIPANT DATA***

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# 1. SUMMARY OF PLAN PARTICIPANTS

		01/01/2005	01/01/2004
		(i)	(ii)
<b>A. Participating Employees</b>	1. Number	51,814	59,648
	2. Total annual plan compensation limited by IRC 401(a)(17)	\$ 3,151,344,244	\$ 3,501,395,567
	3. Average plan compensation	\$ 60,820	\$ 58,701
	4. Average age	41.65	40.90
	5. Average credited service	10.99	10.02
	6. Total Annual Accumulated Benefits	\$ 199,154,043	\$ 204,904,279
	7. Average Accumulated Benefit	\$ 3,844	\$ 3,435

		01/01/2005	01/01/2004
		(i)	(ii)
<b>B. Participants with Deferred Benefits<sup>1</sup></b>	1. Number	30,734	26,773
	2. Total annual benefits	\$ 175,338,113	\$ 149,103,246
	3. Average annual benefits	\$ 5,705	\$ 5,569
	4. Average age	46.95	47.21

<b>Distribution at 01/01/2005</b>	Age Last Birthday	Number	Annual Pension
	(i)	(ii)	(iii)
	Under 40	6,679	\$ 27,581,667
	40-44	6,176	33,361,848
	45-49	6,368	41,247,372
	50-54	5,674	38,742,381
	55-59	3,890	24,699,179
	60-64	1,771	9,040,878
	65 and Over	176	664,788

<sup>1</sup> Excludes "conditional" deferred vesteds resulting from the Sprint Spectrum, 360° Commissions, Service Centers for IBM and Convergys, and Global One Spinoffs



# 1. SUMMARY OF PLAN PARTICIPANTS (cont.)

		01/01/2005	01/01/2004
		(i)	(ii)
<b>C. Participants Receiving Benefits</b>	1. Number	19,864	18,724
	2. Total annual benefits	\$ 180,127,495	\$ 167,624,717
	3. Average annual benefits	\$ 9,068	\$ 8,952
	4. Average age	67.69	67.56
<b>Distribution at 01/01/2005</b>	Age Last Birthday	Number	Annual Pension
	(i)	(ii)	(iii)
	Under 55	1,114	\$ 9,781,196
	55-59	2,934	28,079,854
	60-64	3,846	42,042,007
	65-69	4,486	43,320,178
	70-74	3,324	29,681,981
	75-79	2,246	16,657,184
	80-84	1,279	7,788,260
	85 and Over	635	2,776,835

## 2. AGE AND SERVICE DISTRIBUTION (Non-Union Actives)

Number and Average Plan Compensation Limited by IRC 401(a)(17) Distributed by Attained Age and Attained Years of Credited Service<sup>1</sup>

Attained Age	Attained Years of Credited Service												Total
	0	1	2	3	4	5-9	10-14	15-19	20-24	25-29	30-34	35-39	40 & Over
Under 25		1,006	474	305	200	50							2,035
	\$32,678	\$33,673	\$33,673	\$35,235	\$37,626	\$39,179							\$33,939
25-29		1,122	788	1,205	1,431	1,570	10						6,126
	\$36,718	\$40,424	\$40,424	\$46,031	\$48,183	\$54,387	\$57,609						\$46,267
30-34		714	553	1,070	1,488	3,431	384	22					7,662
	\$45,913	\$49,016	\$49,016	\$55,471	\$54,896	\$63,684	\$61,992	\$59,597					\$58,019
35-39		429	405	703	1,022	2,959	928	476	11				6,933
	\$54,458	\$60,270	\$60,270	\$60,474	\$56,933	\$71,493	\$77,542	\$74,770	\$62,669				\$67,540
40-44		280	263	508	719	2,277	932	1,173	397	77			6,626
	\$58,787	\$62,981	\$62,981	\$62,439	\$59,576	\$74,734	\$81,721	\$85,169	\$79,715	\$60,726			\$73,972
45-49		211	168	355	547	1,651	664	970	634	618	121	1	5,940
	\$63,107	\$61,449	\$61,449	\$61,520	\$59,190	\$71,657	\$78,986	\$90,971	\$90,878	\$69,561	\$63,705	\$69,887	\$74,955
50-54		132	107	241	346	1,074	390	577	448	506	823	89	4,733
	\$63,158	\$53,658	\$53,658	\$59,754	\$55,007	\$66,915	\$80,144	\$82,236	\$79,944	\$71,504	\$68,282	\$67,532	\$70,206
55-59		72	77	134	211	670	305	433	279	297	501	440	3,433
	\$71,905	\$55,634	\$55,634	\$62,653	\$56,779	\$65,141	\$64,934	\$75,729	\$79,756	\$72,889	\$70,728	\$69,190	\$68,970
60-64		10	22	58	71	274	107	133	87	70	109	134	1,123
	\$38,557	\$42,951	\$42,951	\$51,476	\$48,661	\$62,889	\$61,825	\$67,425	\$72,032	\$74,430	\$76,788	\$69,206	\$65,041
65-69		2	4	7	7	41	20	21	11	11	7	7	150
	\$33,603	\$65,346	\$65,346	\$40,904	\$49,254	\$50,752	\$58,428	\$70,028	\$75,597	\$72,844	\$60,522	\$63,528	\$60,020
70 & Over		1	2	3	3	4	1	2					16
	\$33,389	\$22,303	\$22,303	\$29,358	\$34,901	\$34,798	\$38,244	\$62,467					\$35,821
Total		3,979	2,863	4,589	6,045	14,001	3,741	3,807	1,867	1,579	1,561	671	74
	\$43,728	\$48,024	\$48,024	\$53,998	\$54,007	\$67,197	\$75,871	\$82,966	\$83,084	\$70,618	\$69,271	\$68,915	\$63,701
Average:	Age	40.02					Fully vested		27,312		Males		24,649
	Service	9.03					Partially vested	0			Females		20,128

<sup>1</sup> Ages and service totals for purposes of determining category are based on exact (not rounded) values. Compensation is limited by IRC 401(a)(17).

Sprint Retirement Pension Plan

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January 1, 2005

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### 3. AGE AND SERVICE DISTRIBUTION (Union Actives)

*Number Distributed by Attained Age and Attained Years of Credited Service<sup>1</sup>*  
Attained Years of Credited Service

Attained Age	0	1	2	3	4	5-9	10-14	15-19	20-24	25-29	30-34	35-39	40 & Over	Total
Under 25	26	9	11	8	7	5								66
25-29	24	17	38	80	81	96	2							338
30-34	14	17	30	55	82	214	57	6						475
35-39	12	17	25	32	61	170	117	66	2					502
40-44	14	8	24	24	61	155	124	116	64	50				640
45-49	10	13	21	23	48	143	113	127	126	359	111			1,094
50-54		5	6	9	23	93	82	82	104	302	754	119		1,579
55-59	1	5	5	17	15	77	56	72	62	185	631	580	17	1,723
60-64	1	1	1	3	5	22	15	25	36	48	111	221	73	562
65-69			2	2	1	6	4	4	3	4	6	10	13	55
70&Over								1			2			3

Total	102	92	163	253	384	981	570	499	397	948	1,615	930	103	7,037
Average	Age		48 55	Number of participants			Fully vested		6,044		Males		5,400	
	Service		21 06				Partially vested		0		Females		1,637	

<sup>1</sup> Ages and service totals for purposes of determining category are based on exact (not rounded) values.

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*Sprint Retirement Pension Plan*

*January 1, 2005*



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*SECTION III*  
*ACTUARIAL EXHIBITS*

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# 1. SUMMARY OF VALUATION RESULTS

Plan Years Beginning:		01/01/2005	01/01/2004
		(i)	(ii)
<b>A. Participant Information</b>	1. Number of participating employees	51,814	59,648
	2. Annual compensation	\$ 3,175,996,670	\$ 3,528,556,495
	3. Annual plan compensation (limited by IRC 401(a)(17))	3,151,344,244	3,501,395,567
<b>B. Current Liability (Exh. 3)</b>	1 RPA '94 (IRS mortality)	\$ 4,192,683,931	\$ 3,693,009,062
	2 OBRA '87 (Valuation mortality)	N/A	N/A
<b>C. Actuarial Accrued Liability (Exh. 2)</b>	1 Participating employees	\$ 1,316,980,889	\$ 1,280,753,476
	2. Participants with deferred benefits	493,578,416	410,959,859
	3. Participants receiving benefits	1,600,857,471	1,495,330,529
	4. Total	\$ 3,411,416,776	\$ 3,187,043,864
<b>D. Assets (Exh. 5)</b>	1. Market value of assets	\$ 3,978,376,345	\$ 3,476,193,240
	2. Actuarial value of assets	4,056,238,559	3,907,167,219
<b>E. UAAL and Normal Cost</b>	1 Unfunded actuarial accrued liability	\$ (644,821,783)	\$ (720,123,355)
	2. Employer normal cost (Exh. 2)	80,443,933	83,158,435
	3. As a percentage of annual compensation	2.53%	2.36%
<b>F. Contribution Range<sup>1</sup></b>	1. Minimum required contribution (Exh. 6)	\$ 0	\$ 0
	2. As a percentage of annual compensation	0.00%	0.00%
	3. Maximum deductible contribution (Exh. 7) <sup>2</sup>	\$ 1,643,948,985	\$ 1,204,069,742
	4. As a % of annual plan compensation (limited)	51.76%	34.12%
	5. Contribution to Obtain Next Year's FFL PBGC Variable Rate exemption	\$ 0	\$ 0
<b>G. Assumptions</b>	1. Valuation interest rate	8.00%	8.00%
	2. Current liability interest rate	6.10%	6.55%
	3. Compensation increase rate	4.25%	4.25%

<sup>1</sup> These amounts are calculated assuming that contributions will be made in the amounts and on the dates described in the Summary of Key Results and that any receivable contributions for the prior plan year will be made when due. If actual contributions differ from this schedule, these amounts may need to be adjusted.

<sup>2</sup> This is the maximum deductible limit based on our understanding of section 404(a)(1) of the Internal Revenue Code and the plan sponsor's tax policy. Additional limits on deductible contributions may apply under section 404(a)(7) of the Code if the plan sponsor maintains one or more defined contribution plans and one or more defined benefit plans covering the same participants.



## 2. DETAILS OF FUNDING METHOD LIABILITIES

BASED ON 8.00% INTEREST RATE

<b>A. Normal cost</b>	
1. Benefits	\$ 80,443,933
2. Expected employee contributions	0
3. Expected administrative expenses	0
4. Employer normal cost	<u>0</u>
	\$ 80,443,933
<b>B. Actuarial accrued liability under</b>	
1. Participating employees	\$ 1,316,980,889
2. Participants with deferred benefits	493,578,416
3. Participants receiving benefits	<u>1,600,857,471</u>
4. Total	\$ 3,411,416,776
<b>C. Present value of future benefits</b>	
1. Participating employees	\$ 2,206,630,592
2. Participants with deferred benefits	493,578,416
3. Participants receiving benefits	<u>1,600,857,471</u>
4. Total	\$ 4,301,066,479
<b>D. Expected benefit payments</b>	
1. To participating employees	\$ 7,672,544
2. To all other participants	<u>179,701,279</u>
3. Total	\$ 187,373,823

### 3. CURRENT LIABILITY

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	<u>RPA'94</u>
A. <i>Applicable interest rate</i>	6 10%
B. <i>Assumed mortality</i>	IRS
C. <i>Current liability normal cost</i>	
1. Benefits	\$ 125,990,739
2. Expected employee contributions	0
3. Expected administrative expenses	0
4. Employer normal cost	<u>\$ 125,990,739</u>
D. <i>Current liability at valuation date</i>	
1. Participating employees	\$ 1,605,984,546
2. Participants with deferred benefits	705,518,658
3. Participants receiving benefits	<u>1,881,180,727</u>
4. Total	\$ 4,192,683,931
5. Reduction to exclude pre-participation service	0
6. Net	<u>\$ 4,192,683,931</u>
E. <i>Expected benefit payments</i>	\$ 187,257,461
F. <i>Vested current liability at valuation date, net of any reduction to exclude pre-participation service</i>	
1. Participating employees	\$ 1,434,944,074
2. Participants with deferred benefits	705,518,658
3. Participants receiving benefits	<u>1,881,180,727</u>
4. Net total	<u>\$ 4,021,643,459</u>



## 4. CHANGE IN PLAN ASSETS DURING PLAN YEAR

### RESULTS FOR PLAN YEAR ENDING DECEMBER 31, 2004

	Weight <sup>1</sup>	Market Value	Actuarial Value
	(i)	(ii)	(iii)
<b>A. Reconciliation of Assets During Plan Year</b>			
1. Plan assets at January 1, 2004 <sup>2</sup>	99.377% <sup>3</sup>	\$ 3,476,193,240	\$ 3,907,167,219
2. Employer contributions			
a. Deposited during year		300,000,000	
b. Receivable at beginning of year		(300,000,000)	
c. Subtotal	0.000%	\$ 0	\$ 0
d. Receivable at end of year		300,000,000	300,000,000
e. Total		\$ 300,000,000	\$ 300,000,000
3. Employee contributions	0.000%	0	0
4. Benefit payments made	50.000%	(190,193,781)	(190,193,781)
5. Administrative expenses paid by plan	0.000%	0	0
6. Transfers from/(to) other plans	0.000%	0	0
7. Investment return			
a. Interest & dividends		\$ 0	
b. Investment expenses		0	
c. Realized gains/(losses)		392,376,886	
d. Change in unrealized appreciation		0	
e. Total		\$ 392,376,886	\$ 39,265,121
8. Plan assets at December 31, 2004 before method change <sup>2</sup>		3,978,376,345	4,056,238,559
9. Plan assets at January 1, 2005 after method change <sup>2</sup>			N/A
<b>B. Rate of Return on Invested Assets</b>			
1. Using time-weighted transactions			
a. Weighted invested assets		\$ 3,359,439,666	\$ 3,812,070,329
b. Rates of return (100% x A.7 e. / a.)		11.68%	1.03%
2. On 2005 Schedule B (Form 5500)			
a. Weighted invested assets			\$ 3,962,070,329
b. Rate of return (100% x A.7 e. / a.)			0.99%

<sup>1</sup> The weights shown are used to calculate the amounts in item B 1 a and B 1 b

<sup>2</sup> Includes receivable contributions

<sup>3</sup> Use 100.000% when calculating the B 1 a and B 1 b. in col (iii), because contributions receivable are treated as present for the entire plan year in all funding calculations.



## 5. DEVELOPMENT OF ACTUARIAL VALUE OF ASSETS

### UNDER THE ADJUSTED MARKET VALUE METHOD

#### A. Expected Return on Market Value of Assets for Prior Year

1. Assets and actual contributions and distributions in prior year weighted for timing

Item	Amount	Weight for Timing	Weighted Amount
(i)	(ii)	(iii)	(iv)=(ii)x(iii)
a. Market value of assets	\$ 3,476,193,240	100.000%	\$ 3,476,193,240
b. Contributions	300,000,000	0.000%	0
c. Benefit payments and administrative expenses	(190,193,781)	50.000%	(95,096,891)
d. Transfers	0	0.000%	0
e. Total			\$ 3,381,096,349
2. Assumed rate of return on plan assets for the year			8.00%
3. Expected return (1. x 2.)			\$ 270,487,708

#### B. Actual Return on Assets for Prior Year

1. Market value at January 1, 2004	\$ 3,476,193,240
2. Contributions for prior plan year	300,000,000
3. Benefits payments and administrative expenses	190,193,781
4. Transfers	0
5. Market value at December 31, 2004	3,978,376,345
6. Actual return (5. - 4. + 3. - 2. - 1.)	392,376,886

#### C. Investment Gain/(Loss) for Prior Year (B.6. - A.3.)

\$ 121,889,178

#### D. Actuarial Value of Assets as of January 1, 2005

1. Market value of assets at January 1, 2005 \$ 3,978,376,345
2. Deferred investment gains and (losses) for last 5 years

Plan Year Ending	Gain/(Loss)	Percent Recognized	Percent Deferred	Deferred Amount
(i)	(ii)	(iii)	(iv)	(v)=(ii)x(iv)
a. 12/31/2004	\$ 121,889,178	20.000%	80.000%	\$ 97,511,342
b. 12/31/2003	288,298,744	40.000%	60.000%	172,979,246
c. 12/31/2002	(620,862,677)	60.000%	40.000%	(248,345,071)
d. 12/31/2001	(500,038,656)	80.000%	20.000%	(100,007,731)
e. 12/31/2000	(445,399,528)	100.000%	0.000%	0
Total				\$ (77,862,214)

3. Asset value adjusted for deferred gains and (losses) (1. - 2(v) Total) 4,056,238,559
4. Corridor for actuarial value
- a. 80.00% of Item 1 3,182,701,076
- b. 120.00% of Item 1. 4,774,051,614
5. Actuarial value of plan assets (3., but not less than 4.a nor greater than 4.b.) 4,056,238,559



## **6. CALCULATION OF MINIMUM REQUIRED CONTRIBUTION**

### ***A. For Plan Year Ending December 31, 2005***

1. Preliminary net charges to funding standard account	
a. Employer normal cost	\$ 80,443,933
b. Net amortization charges	<u>53,138,476</u>
c. Total	\$ 133,582,409
2. Preliminary net charges to funding standard account with interest to end of plan year	\$ 144,269,002
3. Additional funding charge	0
4. Interest penalty due to late quarterly contributions	<u>0</u>
5. Total net charges to funding standard account	\$ 144,269,002
6. Total full funding credits	<u>0</u>
7. Minimum required contribution before offset for credit balance	\$ 144,269,002
8. Funding Standard Account credit balance/(funding deficiency) with interest to end of plan year	970,066,655
9. Minimum Required Contribution if deposited on or after December 31, 2005 (7. - 8., not < 0)	0
10. Minimum Required Contribution reflecting quarterly contributions	0

### ***B. Test for Current Year Exemption from Quarterly Contributions***

1. Prior year RPA '94 current liability adjusted to exclude pre-participation service at January 1, 2004	\$ 3,693,009,062
2. Prior year actuarial value of assets at January 1, 2004	3,907,167,219
3. Prior year funded percentage (100% x 2. / 1 )	105.80%
4. Is the plan exempt from quarterly contributions for the plan year beginning January 1, 2005? (yes, if 3. is 100% or more)	Yes



## 7. DEVELOPMENT OF MAXIMUM DEDUCTIBLE CONTRIBUTION

FOR THE TAX YEAR ENDING DECEMBER 31, 2005

<b>A. Maximum contribution before recognition of full funding limitation</b>	
1. Employer normal cost	\$ 80,443,933
2. Net maximum amortization charges	0
3. Interest on (1. + 2.) from beginning of plan year to earlier of end of plan year or end of tax year	6,435,515
4. Total	\$ 86,879,448
<b>B. Full funding limitation</b>	
	\$ 64,361,642
<b>C. Lesser of A.4. and B.</b>	
	\$ 64,361,642
<b>D. Minimum required contributions (for the plan year ending within the current tax year and for earlier plan years not claimed as a deduction for the prior, or any earlier, tax year)</b>	
	\$ 0
<b>E. Asset adjustments</b>	
1. Deductible contributions included in assets not yet taken as a tax deduction	\$ 300,000,000
2. Contributions that have been taken as a tax deduction but are not yet included in assets	0
3. Asset adjustments (1. - 2.)	300,000,000
<b>F. Unfunded RPA'94 current liability</b>	
1. RPA'94 current liability at end of year	\$ 5,529,817,853
2. RPA'94 reduction to exclude pre-participation service	0
3. RPA'94 reduction to exclude pre-participation service with interest to end of year	0
4. Adjusted current liability (1 - 3.)	5,529,817,853
5. Adjusted actuarial value of assets at end of year	3,885,868,868
6. Unfunded RPA'94 current liability (4. - 5., not < 0)	1,643,948,985
<b>G. Maximum deductible contribution (largest of C., D. and F.6.)<sup>1</sup></b>	
	\$ 1,643,948,985

<sup>1</sup> Additional limits on deductible contributions under section 404(a)(7) of the Code will apply if the plan sponsor maintains one or more defined contribution plans and one or more defined benefit plans and one or more of the sponsor's employees participate in both types of plans. The limitations under section 404(a)(7) have not been reflected in this report

## 8. SFAS 35 INFORMATION

	Number of Participants Vested	Present Value
	(i)	(ii)
<b>A. Present Value of Accumulated Benefits</b>		
1. Vested Accumulated Benefits		
a. Participating employees	33,356 <sup>1</sup>	\$ 1,024,310,518
b. Participants with deferred benefits <sup>2</sup>	31,372	493,578,416
c. Participants receiving benefits	<u>19,864</u>	<u>1,600,857,471</u>
d. Total vested accumulated benefits	84,592	\$ 3,118,746,405
2. Nonvested Accumulated Benefits		<u>112,599,636</u>
3. Total Accumulated Benefits <sup>3</sup>		\$ 3,231,346,041
4. Market Value of Assets <sup>4</sup>		3,978,376,345
5. Funded Accumulated Benefits (100% x 4 / 3 )		123 12%
<b>B. Reconciliation of Present Value of Accumulated Benefits</b>		
1. Present value of accumulated benefits at January 1, 2004		\$ 3,001,342,379
2. Changes during the year due to:		
a. Benefits accumulated		\$ 85,159,598
b. Actuarial (gains)/losses		61,835,952
c. Decrease in the discount period		239,312,402
d. Actual benefits paid		(190,193,781)
e. Plan amendment		5,508,656
f. Change of assumptions		<u>28,380,835</u>
g. Net increase (decrease)		\$ 230,003,662
3. Present value of accumulated benefits at December 31, 2004 (1. + 2.)		3,231,346,041

Actuarial assumptions: Other than investment return assumptions, the same actuarial assumptions used to determine the plan's funding requirements (described in Appendix A) are used to value the SFAS 35 liabilities. An investment return assumption of 8.00% was used. For the prior valuation, an investment return assumption of 8.00% was used.

<sup>1</sup> Of these, 33,356 are fully vested and 0 are partially vested. There are also 18,458 non-vested participating employees for a total of 51,814 participating employees.

<sup>2</sup> Includes "conditional" deferred vesteds resulting from the Sprint Spectrum, 360° Communications, Service Centers for IBM and Convergys, and Global One Spinoffs.

<sup>3</sup> This does not represent liabilities on a plan termination basis for which a separate extensive analysis would be required. The effect of any plan provision changes recognized for minimum funding requirements for the plan year beginning January 1, 2005 is included.

<sup>4</sup> Assets include accrued contributions of \$300,000,000, not yet deposited at December 31, 2004.



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*SECTION IV*  
*APPENDICES*

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HIGHLY  
CONFIDENTIAL



## APPENDIX A – STATEMENT OF ACTUARIAL ASSUMPTIONS AND METHODS – Schedule B Lines 6 and 11

*Plan Sponsor*  
*EIN/PN*

Sprint Corporation  
48-0457967/001

*Interest Rates*

Valuation  
RPA '94 Current liability

8.00%  
6.10% for §412 purposes;  
4.59% for §404 purposes.

*Compensation Increases*

Annual rates of future compensation increase for employees with final pay benefits are as follows.

Age	Annual Rate of Salary Increase
25	8.50%
30	7.50
35	6.50
40	5.50
45	4.50
50	4.00
55	3.75
60	3.50
64	3.30

For employees with flat dollar benefits, no future salary increase was assumed.

*Future Increases in  
Maximum Benefits and  
Plan Compensation  
Limitations*

It is assumed that maximum benefit and plan compensation limitations under the Internal Revenue Code will not increase in the future. For the 2005 plan year, the maximum benefit limit is \$170,000 and the plan compensation limitation is \$210,000.

*Assumed Cost-of-Living  
Adjustments*

None.

*Administrative Expenses*

Provision for expenses is through the use of an expected rate of return on assets lower than might otherwise be expected.



## APPENDIX A – STATEMENT OF ACTUARIAL ASSUMPTIONS AND METHODS (cont.)

**Mortality** The RP-2000 Combined Healthy Mortality Tables for males and females, without projections.

**Disabled Mortality** The 1956 Railroad Retirement Board Disabled male mortality table (set back 5 years for females) was used for the period after disability retirement. For RPA '94 current liabilities, the mortality tables specified in Revenue Ruling 95-28 were used.

**Retirement** Later of age 65 and 5 years of service.

**Separation Before Normal Retirement** Representative values of the assumed annual rates of withdrawal, early retirement and disability are as follows:

Annual Rate of Withdrawal Prior to Eligibility for Early Retirement				
Age	Telephone Companies <sup>1</sup>		Others <sup>1</sup>	
	Male	Female	Male	Female
25	4.00%	6.50%	7.50%	8.50%
30	4.00	6.50	7.50	8.50
35	4.00	6.50	7.50	7.00
40	4.00	6.50	5.00	7.00
45	4.00	6.50	5.00	7.00
50	4.00	6.50	5.00	7.00
55	4.00	6.50	5.00	7.00
60	4.00	6.50	5.00	7.00
64	4.00	6.50	5.00	7.00

Annual Rate of Early Retirement				
Age	Telephone Companies		Others	
	Male	Female	Male	Female
55	1.00%	3.00%	1.00%	1.50%
56	1.00	3.00	1.00	1.50
57	1.00	3.00	1.00	1.50
58	2.00	3.00	2.00	1.50
59	2.00	5.00	1.00	2.50
60	5.00	7.00	3.00	3.50
61	7.00	10.00	5.00	5.00
62	12.00	15.00	10.00	10.00
63	12.00	15.00	10.00	10.00
64	20.00	20.00	15.00	15.00
65	40.00	40.00	30.00	30.00
66	40.00	40.00	30.00	30.00
67	40.00	40.00	30.00	30.00
68	100.00	100.00	100.00	100.00

<sup>1</sup> Withdrawal rates shown are adjusted during the first nine years of employment to reflect higher turnover.



## APPENDIX A – STATEMENT OF ACTUARIAL ASSUMPTIONS AND METHODS (cont.)

Age	Annual Rate of In-Service Disability	
	Male	Female
25	.03%	.05%
30	.03	.05
35	.03	.05
40	.05	.08
45	.10	.20
50	.19	.27
55	.33	.31
60	.59	.54
64	.80	.72

<i>Form of Payment</i>	Participants are assumed to elect the normal form
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<i>Marriage</i>	80% of employees are assumed to be married, with the husband three years older than his wife.
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<i>Employees</i>	It is assumed that there will be no new or rehired employees. The probability of plan shutdown or job elimination is assumed to be negligible.
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<i>Inclusion Date</i>	The valuation date coincident with or next following the date on which the employee becomes a participant
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<i>Compensation for Plan Participants</i>	Compensation assumed paid in the current year beginning on the valuation date is the current annual rate of pay.
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## APPENDIX A – STATEMENT OF ACTUARIAL ASSUMPTIONS AND METHODS (cont.)

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### *Cost Method*

The Projected Unit Credit Cost Method is used to determine the normal cost and the actuarial accrued liability for retirement, termination, and ancillary benefits. Under this method, a "projected accrued benefit" is calculated as of the beginning of the year and as of the end of the year for each benefit that may be payable in the future. The "projected accrued benefit" is based on the plan's accrual formula and upon service as of the beginning or end of the year, but using final average compensation, social security benefits, etc., projected to the age at which the employee is assumed to leave active service. For benefits where the plan's accrual formula is not relevant, benefits are assumed to accrue on a straight-line basis over the period during which the employee earns credited service. The actuarial accrued liability is the present value of the "projected accrued benefits" as of the beginning of the year for employed participants and is the present value of all benefits for other participants. The normal cost is the present value of the difference between the "projected accrued benefits" as of the beginning and end of the year. The normal cost and actuarial accrued liability for the plan are the sums of the individually computed normal costs and actuarial accrued liabilities for all plan participants.

---

### *Asset Method*

The actuarial value of assets is calculated under an adjusted market value method by starting with market value of assets at January 1, 1998. For subsequent years the value is determined by adjusting the market value of assets to reflect the investment gains and losses (the difference between the actual investment return and the expected investment return) during each of the last 5 years or, if fewer, the completed years since January 1, 1998, at the rate of 20.00% per year. The actuarial value is subject to a restriction that it not be less than 80% nor more than 120% of market value.

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### *Participant Data*

Employee data was supplied by Sprint Corporation as of the valuation date. Data on persons receiving benefits was supplied by Sprint Corporation. Data on other participants was supplied by Sprint Corporation.

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## APPENDIX A – STATEMENT OF ACTUARIAL ASSUMPTIONS AND METHODS (cont.)

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### *Nature of Actuarial Calculations*

The results documented in this report are estimates based on data that may be imperfect and on assumptions about future events. Certain plan provisions may be approximated or deemed immaterial and therefore are not valued. Assumptions may be made about participant data or other factors. Reasonable efforts were made in this valuation to ensure that items that are significant in the context of the actuarial liabilities or costs are treated appropriately, and not excluded or included inappropriately.

A range of results, different from those presented in this report could be considered reasonable. The numbers are not rounded, but this is for convenience only and should not imply precision, which is not inherent in actuarial calculations

The assumptions selected for this valuation, including in particular the expected investment return assumption, generally reflect long-term average expectations. If overall future plan experience is less favorable than assumed, the relative level of plan costs or contribution requirements determined in this valuation will likely increase in future valuations. Based on historical experience and financial theory, assets invested in instruments subject to risk are expected to achieve higher returns in the long-run than assets invested in risk-free investments (such as government bonds), but these returns may and do fluctuate significantly from year to year. The deterministic actuarial models used in this valuation do not take into consideration the higher volatility that is expected from investments in such assets.

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### *Benefits Not Included in Valuation*

None. Note that, for the purpose of valuing the special early retirement benefit, the probability of permanent shutdown or job elimination without offer of other employment is zero.

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### *Changes in Assumptions and Methods Since Last Actuarial Valuation*

The interest rate used to measure current liability was changed from 6.55% (§412) and 4.94% (§404). An interest rate of 6.10% is used for §412 calculations and an interest rate of 4.59% is used for §404 calculations.

The mortality assumption has been changed from the 1983 Group Annuity Mortality Table to RP-2000 Combined Healthy Mortality Table without projection to better reflect the anticipated experience of the Sprint population.

The election percentage for GTE and US Sprint lump sums was increased from 0% to 80% to better reflect expected experience. The actuarial equivalence for the conversion is based on an assumed interest rate of 5.25%.

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## APPENDIX B – SUMMARY OF PRINCIPAL PLAN PROVISIONS – Schedule B Line 6

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*Plan Sponsor* Sprint Corporation

*EIN/PN* 48-0457967/001

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*Membership*

All regular employees of participating companies are covered by the Plan upon meeting the membership eligibility requirements below.

Membership continues in this Plan if an employee was a member of the United System Employee Retirement Plan or US Sprint Communications Company Pension Plan on December 31, 1989. Former Centel employees became participants on December 31, 1993. Otherwise, effective January 1, 1990, an employee becomes a member on the first day of the calendar month coincident with or next following the date he completes one year of continuous service. Part-time employees must work 1,000 hours and 12 consecutive months to become members.

"Former Centel Union Employees" become participants in the plan on the date on which they become employees

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*Definitions*

"Continuous service" means all service rendered as an employee prior to the later of his normal retirement date or date of termination of employment. Continuous service is measured in nearest full years for non-union employees, and measured in hours of service for union employees.

"Credited service" means all service rendered as an employee prior to the later of his normal retirement date or date of termination of employment. Credited service is measured in years and months for non-union employees and measured in hours of service for union employees.

"Compensation" means regular remuneration plus commissions and, effective December 31, 1993, incentive pay payable under defined incentive pay programs including any pre-tax elective deferrals under the savings plans.

"Average pre-1990 compensation" means the average annual compensation of an employee during the last sixty consecutive months before January 1, 1990, with compensation defined as of that date.

"Average pre-1994 compensation" means the average annual compensation of an employee during the last sixty consecutive months before January 1, 1994.



## APPENDIX B – SUMMARY OF PRINCIPAL PLAN PROVISIONS (cont.)

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“Average final compensation” means the average annual compensation of an employee, during the 60 consecutive months out of the last 120 months in which he was actually working, but no later than December 31, 1999, affording the highest such average.

“Normal retirement date” means the later of (a) the first of the month coinciding with or following the member attaining age 65, (b) his completion of five years of continuous service or, if earlier, the fifth anniversary of the time he became a member, provided he is employed by the company at that time.

“Commencement date” means the date at which a provision of the Plan becomes effective with respect to a specific group of employees.

“New Covered Compensation” means the average of the taxable wage bases in effect under Title II of the Federal Social Security Act for each year during the 35-year period ending with the year the employee attains Social Security Retirement Age (or the year before Social Security Retirement Age if before 1995), assuming no increase in the taxable wage base after the calendar year of his termination of employment or retirement date.

“Covered Compensation” means the average of the taxable wage bases in effect under Title II of the Federal Social Security Act prior to the 1977 amendments for each year with respect to which benefits would be calculated for a male employee attaining age 65 assuming no increase in the taxable wage base after the calendar year of his termination of employment or retirement date.

“Social security integration level” means, based on the calendar year of retirement or termination, the average of the taxable wage bases under Title II of the Federal Social Security Act for an employee attaining Social Security Retirement Age in that calendar year.

“United transferred employee” means an employee who transferred from United Telecom to US Sprint Communications Company after June 30, 1986 and prior to January 1, 1990.

“GTE transferred employee” means an employee who transferred from GTE Corporation to US Sprint Communications Company after June 30, 1986 and prior to January 1, 1990.

“Former Centel Non-Union Employee” means an employee who was a member of the Centel Retirement Pension Plan prior to January 1, 1994 who was not covered by a collective bargaining agreement.

“Former Centel Union Employee” means an employee who was a member of a collective bargaining unit as described in the Centel Union Plan.



## APPENDIX B – SUMMARY OF PRINCIPAL PLAN PROVISIONS (cont.)

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"Centel Career Average Compensation" means average monthly compensation for the period beginning January 1, 1985 and ending on December 31, 1993.

"Centel Average Final Compensation" means average monthly compensation during the 60 consecutive months in which the employee received the greatest amount of Compensation during the 180-month period ending December 31, 1989.

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### *Benefits*

#### *Normal Retirement Allowance*

*Condition for Benefit* — The normal retirement age is 65 with five years of service. Service may be extended beyond age 65. Union benefits are applicable under certain collectively bargained agreements to members represented by such agreements; otherwise, non-union benefits are applicable. The Plan specifies procedures to follow in determining the applicable benefit for members who transfer from one status to another.

*Amount of Non-Union Benefit* — A member's annual normal retirement allowance is equal to the greater of (a) or (b) as follows:

- (a) (i) the sum of 1.5% times compensation for each year of credited service after December 31, 1989, plus
- (ii) the product of
  - (1) 1.5% of the member's average pre-1990 compensation, and
  - (2) credited service through December 31, 1989.
- (b) (i) the sum of 1.5% times compensation for each year of credited service after December 31, 1993, plus
- (ii) the product of
  - (1) 1.5% of the member's average pre-1994 compensation, and
  - (2) credited service through December 31, 1993.

*Amount of Union Benefit* — A member's annual normal retirement allowance is equal to the applicable monthly benefit unit per year of service for a member age 65 multiplied by his credited service multiplied by 12. The monthly benefit unit, specified in the collective bargaining agreement, varies by wage grade.

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## APPENDIX B – SUMMARY OF PRINCIPAL PLAN PROVISIONS (cont.)

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### *Early Retirement Allowance*

*Condition for Benefit* — Any member who has reached age 55 may retire on an early retirement allowance provided he has completed ten years of continuous service.

*Amount of Non-Union Benefit* — A member's annual early retirement allowance is equal to the greater of (a) or (b) as follows:

- (a) (i) the sum of 1.5% times compensation for each year of credited service after December 31, 1989, plus
- (ii) the product of
  - (1) 1.5% of the member's average pre-1990 compensation, and
  - (2) credited service through December 31, 1989.
- (b) (i) the sum of 1.5% times compensation for each year of credited service after December 31, 1993, plus
- (ii) the product of
  - (1) 1.5% of the member's average pre-1994 compensation, and
  - (2) credited service through December 31, 1993.

Such benefit is reduced by 5/12 of 1% for each month by which his retirement date precedes his normal retirement date. For calendar years from 1986 to 2000, a table of enhanced early retirement reduction factors applies to employees retiring at or after age 60

*Amount of Union Benefit* — A member's annual early retirement allowance is equal to the applicable monthly benefit per year of service, based on his age at retirement, multiplied by his credited service multiplied by 12. The applicable monthly benefit unit per year of service includes a reduction for early commencement.

---

### *Special Early Retirement Allowance*

*Condition for Benefit* — Any member whose age last birthday and credited service total 75 may retire on a special early retirement allowance provided:

- (i) his continuous service is broken by reason of a permanent shutdown of a plant, site, installation or department thereof, or
- (ii) he is unfit mentally or physically to perform his duties in a satisfactory manner, or
- (iii) his job no longer exists due to any cause and he is not offered other employment by the Company.



## APPENDIX B – SUMMARY OF PRINCIPAL PLAN PROVISIONS (cont.)

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*Amount of Non-Union Benefit* — The annual special early retirement allowance is equal to the early retirement non-union allowance prior to reduction for early payment reduced by 5/24 of 1% for each month by which the retirement date precedes the normal retirement date.

The minimum special early retirement allowance is equal to the minimum early retirement allowance.

*Amount of Union Benefit* — The annual special early retirement allowance is equal to the applicable monthly benefit unit per year of service for a member age 65 on the date of retirement multiplied by his credited service multiplied by 12, reduced by 5/24 of 1% for each month by which the retirement date precedes his normal retirement date.

---

### *Disability Retirement Allowance*

*Condition for Benefit* — A member who has completed ten years of continuous service, who qualifies for a Social Security disability benefit and who is found to be totally and permanently disabled may be retired on a disability retirement allowance.

*Amount of Non-Union Benefit* — The annual disability retirement allowance payable upon retirement at the disability retirement date is equal to the annual early retirement non-union allowance prior to reduction for early payment.

*Amount of Union Benefit* — The annual disability retirement allowance payable upon retirement at the disability retirement date is equal to the annual normal retirement union allowance determined as if the member were age 65 on his termination of employment.

---

### *Deferred Vested Retirement Allowance*

*Condition for Benefit* — Any member whose service is terminated other than by death or retirement and who has completed five years of continuous service is eligible for a deferred vested retirement allowance.

*Amount of Non-Union Benefit* — A member's deferred vested retirement allowance equals the greater of (a) or (b) as follows:

- (a) (i) the sum of 1.5% times compensation for each year of credited service after December 31, 1989, plus
  - (ii) the product of
    - (1) 1.5% of the member's average pre-1990 compensation as of December 31, 1989, and
    - (2) credited service through December 31, 1989.
- 



## APPENDIX B – SUMMARY OF PRINCIPAL PLAN PROVISIONS (cont.)

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(b) (i) the sum of 1.5% times compensation for each year of credited service after December 31, 1993, plus

(ii) the product of

- (1) 1.5% of the member's average pre-1994 compensation, and
- (2) credited service through December 31, 1993.

A member who terminates before his 55th birthday with ten years of continuous service may elect to receive a deferred vested retirement allowance upon attaining age 55 of equivalent actuarial value to the benefit described above.

*Amount of Union Benefit* — The annual deferred vested retirement allowance commencing at age 65 is equal to the applicable monthly benefit unit per year of service for a member age 65 on the date of retirement multiplied by 12. A member who terminates before his 55th birthday with ten years of continuous service may elect to receive a deferred vested retirement allowance upon attaining age 55 of equivalent actuarial value to the benefit described above.

---

### *Spouse's Allowance*

*Condition for Benefit* — The surviving spouse of a member who dies after January 1, 1985 will be entitled to a benefit under the following conditions:

- (a) The member and his spouse had been married for at least a year at the date of death; and
- (b) The member was an active employee and had at least five years of continuous service at his date of death, or the member was a terminated vested member.

*Amount of Non-Union Benefit* — In the event of an active member's death before retirement, the spouse's allowance is equal to the benefit which the spouse would have been paid had the member retired on an early retirement non-union allowance with the 50% joint and survivor form of benefit on the first day of the month preceding his date of death. If the active member had not yet attained age 55, the reductions for early commencement and joint and survivor form of payment shall be those which would have applied at age 55.

In the event of a terminated vested employee's death before commencement of benefits, the spouse's allowance, payable at the date the employee would have been age 55 or the date of death if later, is equal to 50% of the 50% joint and survivor deferred vested benefit with actuarial reduction for early commencement and the joint and survivor form of payment based on the date payments commence.



**ATTACHMENT KWD-9**

**Affidavit of Gene M. Betts, Senior Vice President for Corporate  
Finance/Treasurer for Sprint Nextel Corporation & Designated  
Chief Financial Officer of LTD Holding Company**

**\*\*\* PUBLIC \*\*\***

BEFORE THE TENNESSEE REGULATORY AUTHORITY

NASHVILLE, TENNESSEE

In the Matter of: )  
)  
Application of Sprint Nextel Corporation ) Docket No. 05-00240  
for Approval of the Transfer of Control of )  
United Telephone-Southeast, Inc., Sprint )  
Long Distance, Inc. and Sprint Payphone )  
Services, Inc. From Sprint Nextel )  
Corporation to LTD Holding Company. )

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**AFFIDAVIT OF GENE M. BETTS IN SUPPORT OF THE APPLICATION OF  
SPRINT NEXTEL CORPORATION FOR APPROVAL  
OF THE TRANSFER OF CONTROL**

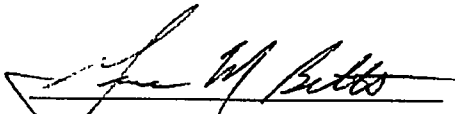
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Gene M. Betts, being first duly sworn, states as follows:

1. My name is Gene M. Betts. I am presently Senior Vice President for Corporate Finance for Sprint Nextel Corporation and have been designated Chief Financial Officer of LTD Holding Company at the time of separation. My business address is 5454 W. 110<sup>th</sup> Street, Overland Park, KS 66211.
2. I have been employed by Sprint Corporation for 18 years.
3. Before being appointed Chief Financial Officer-Designee for LTD Holding Company, I served in the following positions for Sprint: (i) AVP Tax and VP Tax, (ii) SVP Finance-LDD, (iii) SVP Corporate Finance-Financial Planning, Mergers & Acquisitions and Taxes, and (iv) SVP Corporate Finance & Treasurer.
4. The purpose of my affidavit is to provide additional information relating to the equitable allocation of defined benefit pension plan assets in the event of an anticipated plan spinoff, and also to the LTD Holding Company's commitment to appropriately fund its defined benefit pension plan after it is separated from the Sprint Retirement Pension Plan (the "Plan").
5. The Plan was established effective January 1, 1966 as a defined benefit pension plan.

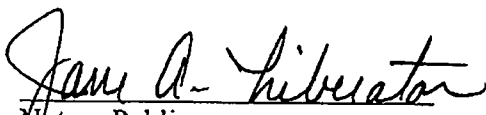
6. The Plan has received a favorable determination from the Internal Revenue Service that it is a tax-qualified plan as defined by Section 401(a) of the Internal Revenue Code ("Code")
7. Since the enactment of the Employee Retirement Income Security Act ("ERISA") in 1974, the Plan has always been funded in compliance with ERISA's funding requirements
8. Internal Revenue Code Section 414(l) governs defined benefit plan spinoffs, with the intent of protecting the interests of plan participants and plan sponsors including an appropriate allocation of plan assets.
9. The planned spinoff of the Plan's assets and liabilities will be conducted in full compliance with 414(l) and its associated regulations.
10. The LTD Holding Company recognizes the Plan as an important part of our strategy to attract, motivate, and retain employees, and will continue to make timely contributions to the Plan in accordance with federal funding requirements in fulfillment of our commitment to employees' retirement security.

I hereby declare under the penalty of perjury that the foregoing statements are true,  
correct, and complete to the best of my knowledge. Further, the affiant sayeth not.

  
Affiant

Sworn to and subscribed before me

this 22nd day of December 2005.

  
Notary Public

(Seal)



My Commission Expires Dec. 18, 2009

**ATTACHMENT KWD-10**

**Pennsylvania Public Utilities Commission Hearing Transcript,  
Selected Excerpts**

**\*\*\* PUBLIC \*\*\***

\*\*\*THIS TRANSCRIPT CONTAINS PROPRIETARY  
AND HIGHLY CONFIDENTIAL INFORMATION\*\*\*

COMMONWEALTH OF PENNSYLVANIA

PUBLIC UTILITY COMMISSION

-----x  
: Joint Application of The United Telephone :  
: Company of Pennsylvania d/b/a Sprint, and : Docket Nos.  
: of Sprint Long Distance, Inc. : A-313200F0007  
: : A-311379F0002  
: For all approvals required under the :  
: Pennsylvania Public Utility Code in :  
: connection with changes of control of :  
: The United Telephone Company of :  
: Pennsylvania d/b/a Sprint, and of Sprint :  
: Long Distance, Inc. :  
: Initial Hearing :  
: -----x

Pages 16 through 154      Hearing Room 2  
                                  Keystone Building  
                                  Harrisburg, Pennsylvania  
                                  Friday, December 2, 2005

Met, pursuant to notice, at 10:00 a.m.

BEFORE:

SUSAN D. COLWELL, Administrative Law Judge

APPEARANCES:

ZSUZSANNA E. BENEDEK, Esquire  
240 North Third Street, Suite 201  
Harrisburg, Pennsylvania 17101  
(For Sprint and United Telephone Company of  
Pennsylvania)

1 APPEARANCES: (Continued)

2 MARK P. TRINCHERO, Esquire  
3 1300 SW 5th Avenue, Suite 2300  
4 Portland, Oregon 97201  
(For Sprint and United Telephone Company of  
Pennsylvania)

5 STEVEN C. GRAY, Esquire  
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Suite 1102 Commerce Building  
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(For Office of Small Business Advocate)

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10 (For Communications Workers of America)

11 SHAUN A. SPARKS, Esquire  
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15 Commonwealth Keystone Building  
P.O. box 3265  
16 Harrisburg, Pennsylvania 17105-3265  
(For Office of Trial Staff)

17 \*\*\*

18

19

20

21

22

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25

□

Transcript from December 2nd Hearing.txt

2 MR. RUBIN: No objection, your Honor.

3 JUDGE COLWELL: They are admitted.

4 (Whereupon, the documents were marked  
5 as Statement Nos. 1.0, 1.1, 1.2, 2.0, 2.1,  
6 2.2, 3.0, 3.1, 3.2, 4.0, 4.1, 4.2, 5.0, and  
7 5.1 for identification, and were received in  
8 evidence.)

9 MS. BENEDEK: One final point. At the end of  
10 the hearing, we will insert to the back of each of them the  
11 affidavits that were provided.

12 JUDGE COLWELL: Do you have affidavits for --  
13 could you just list those?

14 MS. BENEDEK: We have affidavits, your Honor,  
15 for three of the joint applicant witnesses: John W. Mayo,  
16 Richard A. Hrip, and Kevin P. Collins, all of whom have been  
17 stipulated to for cross-examination purposes.

18 JUDGE COLWELL: Okay. I think we're all  
19 up-to-date. Do you have anything else?

20 MS. BENEDEK: I believe that is it, your  
21 Honor.

22 JUDGE COLWELL: I will turn it over to Mr.  
23 Rubin.

Start  
quote

---

24 MR. RUBIN: Thank you, your Honor. As an  
25 initial matter, CWA has considered the testimony of Mr.

□

131

1 Dickerson this morning concerning the pension issue and has  
2 reviewed that with CWA's in-house pension experts during the

3 lunch break.

4 As a result of Mr. Dickerson's  
5 representations today and the affidavit for Mr. Betts that's  
6 attached to Mr. Dickerson's rejoinder, CWA will not be  
7 contesting the applicants proposed pension allocation and  
8 will not be seeking any commission action on that issue.

End quote

9 So hopefully that will simplify things for  
10 your Honor as well as for those of us who have to submit  
11 briefs in a couple of weeks. And with that, we would -- I  
12 would call to the stand Sumanta Ray.

13 JUDGE COLWELL: Raise your right hand,  
14 please.  
15 Whereupon,

16 SUMANTA RAY  
17 having been duly sworn, testified as follows:

18 JUDGE COLWELL: Thank you. Please be seated.

19 Go ahead, Mr. Rubin.

20 MR. RUBIN: Thank you, your Honor.

21 DIRECT EXAMINATION

22 BY MR. RUBIN:

23 Q. Mr. Ray, first a reminder that because of the  
24 acoustics in here, please keep your voice up and speak  
25 slowly so we can all follow it before it bounces around the

□

1 room. And then could you please state your name and spell  
2 it for the court reporter?

BEFORE THE TENNESSEE REGULATORY AUTHORITY

NASHVILLE, TENNESSEE

In the Matter of: )  
 )  
Application of Sprint Nextel Corporation )  
for Approval of the Transfer of Control of )  
United Telephone-Southeast, Inc., Sprint )  
Long Distance, Inc. and Sprint Payphone )  
Services, Inc. From Sprint Nextel )  
Corporation to LTD Holding Company. )

Docket No. 05-00240

**REBUTTAL TESTIMONY OF KENT W. DICKERSON IN SUPPORT OF THE  
APPLICATION OF SPRINT NEXTEL CORPORATION FOR APPROVAL OF THE  
TRANSFER OF CONTROL**

**\*\*\* PUBLIC VERSION \*\*\*  
("CONFIDENTIAL" MATERIAL REDACTED)**

PUBLIC VERSION

**Q. Please state your name, business address, employer and position.**

**A. My name is Kent W. Dickerson. My business address is 6450 Sprint Parkway, Overland Park, Kansas 66251. I am currently employed by Sprint United Management Company as Director – Cost Support. I have been offered and have accepted the position of Director – Cost Support with LTD Holding Company upon completion of the separation transaction.**

**Q. Are you the same Kent W. Dickerson who filed Direct Testimony in support of Sprint Nextel Corporation’s application filed in this docket?**

**A. Yes.**

**Q. What is the purpose of your Rebuttal Testimony?**

**A. My Rebuttal Testimony will address several of the erroneous analyses, conclusions and faulty recommendations contained within the Direct Testimony of Debbie Goldman filed in this docket on behalf of the Communications Workers of America (“CWA”).**

**I. Cash Flow Benefits From The Proposed Debt And Equity Financing Mix**

**Q. Beginning at Page 9, Line 18 of Debbie Goldman’s Confidential Direct Testimony, Ms. Goldman claims the incremental increase in cash flow of [BEGIN CONFIDENTIAL]**

**[END CONFIDENTIAL] Is Ms. Goldman’s analysis correct?**

PUBLIC VERSION

1 A. No. The fundamental error in Ms. Goldman's analysis is that it mixes the near term  
2 certainty of the cash flow benefits resulting from LTD Holding Company's proposed  
3 debt/equity financing mix with a potential future company decision as to how to best use  
4 those cash flow benefits. Only by limiting LTD Holding Company's options to her  
5 single assumed, and unrealistically limited, outcome of future repayment of debt is Ms.  
6 Goldman able to produce the mathematical result underlying her conclusion. The reality  
7 is that the increased cash available, as demonstrated in my Direct Testimony, could be  
8 put to numerous uses, only one of which is the repayment of debt.

9  
10 The increased cash flow benefits resulting from LTD Holding Company's proposed mix  
11 of debt and equity financing are indeed the **[BEGIN CONFIDENTIAL]**  
12 **[END CONFIDENTIAL]** shown in adjustments No.1 and No. 2 on Attachment KWD-6  
13 of my Direct Testimony. Ms. Goldman's Direct Testimony offers no objection or  
14 correction to this mathematical result. Rather, Ms. Goldman attempts to add a  
15 discretionary and yet-to-be determined future outcome, whereby she assumes LTD  
16 Holding Company chooses to use those increased cash flow benefits resulting from the  
17 company's efficient debt and equity financing mix to repay outstanding debt. As  
18 discussed more fully in the Rebuttal Testimony of Dr. Brian K. Staihr, this prospective  
19 company financing decision and outcome is far from decided and is only one of several  
20 options LTD Holding Company will have available at that future time. Dr. Staihr's  
21 Rebuttal Testimony correctly points out that it is entirely possible (and perhaps more  
22 likely) that LTD Holding Company may choose to efficiently maintain its level of debt

1 financing and instead use the improved cash flow amount to make additional profitable  
2 investments in its core business.

3  
4 **Q. Do companies commonly choose to maintain efficient levels of debt in their overall  
5 financing mix over long periods of time?**

6 A. Yes. The evidence of this is easily seen in the analysis and report done by Houlihan,  
7 Lokey, Howard & Zukin (“Houlihan Lokey”) as sponsored by witness Kevin P. Collins.  
8 The Houlihan Lokey “Report to Sprint Nextel Corporation” at page 68, attached Mr.  
9 Collins’ Direct Testimony, shows the ratio of equity to total capital for the six (6)  
10 comparable companies that Mr. Collins used in his overall analysis. This data  
11 demonstrates the comparability of LTD Holding Company’s proposed debt and equity  
12 financing to those of six (6) comparable companies. The data on page 68 demonstrates  
13 the real world outcome of companies choosing to maintain an efficient use of both debt  
14 and equity financing versus seeking only to repay debt in the near term as assumed in Ms.  
15 Goldman’s flawed argument.

16  
17 **II. LTD Holding Company’s Complete Telecommunication Service Portfolio**

18  
19 **Q. In your Direct Testimony you discussed how the LTD Holding Company plans to  
20 use commercial agreements to purchase wholesale long distance and wireless  
21 services from Sprint Nextel Corporation (Sprint Nextel) and thereby enable United  
22 Telephone – Southeast, Inc. (UTSE) to offer a full portfolio of telecommunication  
23 services. The testimony of Ms. Goldman concludes these long distance and wireless**

1        **wholesale commercial agreements will result in customer harm. Do you agree with**  
2        **Ms. Goldman's claim of "customer harm" and Ms. Goldman's associated**  
3        **recommendation that LTD Holding Company be required to engage in a**  
4        **competitive bid process?**

5        A.     No, I do not. In fact, the opposite is the case. Our customers in Tennessee obviously will  
6        be advantaged by UTSE's ability to sell a full portfolio of telecommunication services  
7        including long distance and wireless. Ms. Goldman's Direct Testimony offers absolutely  
8        no support for the illogical assertion of customer harm resulting from those customers  
9        having the option to purchase long distance and wireless services (in addition to voice,  
10       data and video) from UTSE.

11  
12       **Q.     How have the long distance and wireless wholesale commercial agreements been**  
13       **structured to ensure LTD Holding Company is getting the best available pricing?**

14       A.     Both of these commercial agreements contain an important and beneficial feature  
15       whereby the LTD Holding Company is assured the best available wholesale prices  
16       offered by Sprint Nextel. This is accomplished via language in both commercial  
17       agreements which are Most-Favored Nation ("MFN") low price guarantees. There is no  
18       basis in fact for Ms. Goldman's claim of customer harm.

19  
20       **Q.     Beyond the ability to secure low price guarantees through MFN contract provisions,**  
21       **what additional factors were considered in LTD Holding Company's negotiations of**  
22       **the long distance and wireless wholesale commercial agreements?**

PUBLIC VERSION

1 A. Speaking first to the long distance commercial agreement, there were numerous criteria  
2 which were considered in the decision to enter into the commercial agreements with  
3 Sprint Nextel. Those important criteria included billing, provisioning, network  
4 reliability, customer service, breadth of products as well as pricing. Sprint Nextel's  
5 wholesale long distance product compares quite favorably with competitive alternatives  
6 when all the necessary factors are considered. Additionally, the objective of a near term  
7 seamless customer experience associated with separating LTD Holding Company from  
8 Sprint Nextel was yet another critical factor supporting the decision to contract this  
9 business with Sprint Nextel. The current bundled local and long distance service  
10 purchases across LTD Holding Company's serving area, (including Tennessee),  
11 constitutes **[BEGIN CONFIDENTIAL]** **[END CONFIDENTIAL]**  
12 customers today. This necessitates requiring the immediate capability to maintain  
13 consistency for those customers in terms of their long distance and local service  
14 availability, pricing, ordering, provisioning, billing, and customer service offerings. This  
15 key objective of ensuring a seamless customer experience was yet another driver in the  
16 overall logical and financially sound decision to contract the wholesale purchase of long  
17 distance and wireless with Sprint Nextel. Thus, contrary to unsupported and  
18 inflammatory conclusions of Ms. Goldman, the customers of UTSE, through LTD  
19 Holding Company, stand to benefit most from the chosen course of action planned.  
20  
21 Moving now to the wireless commercial agreement, there is an obvious over-riding issue  
22 that was logically considered, namely, the degree to which a potential wholesale wireless  
23 provider's geographic service availability matches the geographic serving area of LTD

1 Holding Company's local customer base (including UTSE). By comparing the wireless  
2 network coverage areas of Alltel, Cingular, T-Mobile, Verizon to that of Sprint Nextel, it  
3 was recognized that Sprint Nextel was best in class for this most critical of all issues (that  
4 being the ability to offer wireless service to LTD Holding Company's local customers).  
5 Sprint Nextel's wireless network coverage equates to a potential LTD Holding Company  
6 customer market which exceeds that of their competitors, within the LTD Holding  
7 Company serving area. Additionally, Sprint Nextel is the acknowledged industry leader  
8 in Mobile Virtual Network Operator ("MVNO") wholesale service arrangements as well  
9 as the leader in data service product availability and innovation. These facts, along and  
10 with the MFN low price guarantees, ensure customers benefit resulting from UTSE's  
11 ability to market long distance and wireless products to those customers. I urge the  
12 Authority to reject CWA's requested condition to delay these benefits by requiring an  
13 unnecessary and ill-advised competitive process at this time.

14  
15 **III. Asset Assignment to LTD Holding Company**

16  
17 **Q. Starting at page 6, line 5 of her Confidential Direct Testimony, Ms. Goldman**  
18 **presents an argument wherein she concludes the applicant's proposed asset**  
19 **assignment to LTD Holding Company is not "fair and equitable". Do you agree?**

20 **A.** No I do not. In fact, LTD Holding Company will receive all the assets reasonable and  
21 necessary for it to continue the quality service provided across its eighteen (18) state  
22 territory (including Tennessee) today.

PUBLIC VERSION

1 The error in Ms. Goldman's conclusion of inequitable asset allocation is rooted in her  
2 flawed comparison of LTD Holding Company assets to the total balance sheet of Sprint  
3 Nextel post merger. This overly simplistic comparison fails to consider that the vast  
4 majority of the Sprint Nextel post merger balance sheet is either newly created  
5 intangibles (including Goodwill associated with recording the recent merger of Sprint and  
6 Nextel), or wireless assets, including those newly contributed wireless assets from  
7 Nextel. This is easily seen Ms. Goldman's CWA Exhibit 4 at page 2 of 3 which shows  
8 total Sprint assets of \$41 billion as of December 21, 2004 prior to merger with Nextel.  
9 This \$41 billion in assets rose to the \$101 billion used in Ms. Goldman's erroneous  
10 comparison only as a result of the recent merger between the wireless interests of Sprint  
11 and Nextel and the associated creation and recording of intangibles including Goodwill.  
12 In fact, effectively the entire account balances for Intangibles of \$49.5 billion clearly  
13 have no association with or use to the LTD Holding Company, its necessary assets or its  
14 operation but rather are 100% attributable to wireless. (See CWA Exhibit 4, at page 2 of  
15 3, Total Net Intangibles which make up essentially half of the \$101 billion in total  
16 assets.)

17  
18 As I explain further below, comparisons of asset book balances are not the best test of  
19 whether LTD Holding Company is receiving the assets necessary and logical for its  
20 operation. Even under the approach used by Ms. Goldman I would point out that had she  
21 more logically compared the LTD Holding Company assets of \$9.6 billion to the \$41  
22 billion in total Sprint assets which existed just prior to the merger with Nextel she would  
23 have computed a relationship of 23.4%. This relationship is a very near match to the

1 relative relationship of approximately 7.7 million LTD wireline customers to total Sprint  
2 customers of 29.2 million (including 21.5 million Sprint wireless customers) equating to  
3 26.4%.

4  
5 **Q. Is the proposed asset assignment to LTD Holding Company reasonable and**  
6 **adequate for it to continue the services and quality that it provides today?**

7 A. Absolutely. In fact the \$9.6 billion in assets assigned to LTD Holding Company at  
8 separation are effectively the exact same assets used by the individual local operating  
9 telephone companies (OTCs, e.g. UTSE) to provide service today. All of the assets  
10 which appear on the individual balance sheets of the individual OTCs will transfer with  
11 the LTD Holding Company upon separation. Said differently there are no OTC assets  
12 which will remain with Sprint Nextel upon separation. Thus it is impossible to support  
13 the erroneous conclusion reached by Ms. Goldman. The assets proposed for assignment  
14 to LTD Holding Company upon separation are in fact reasonable, equitable and all that  
15 are necessary to continue the provision of high quality service and financial results which  
16 underlie those assets today.

17  
18 **IV. Pension Plan Assets and Liabilities**

19  
20 **Q. Starting at page 16, line 13 of her Confidential Direct Testimony, Ms. Goldman**  
21 **urges the Authority to set conditions whereby it would oversee the allocation of**  
22 **existing pension plan assets and liabilities and that such allocation be done to fully**  
23 **fund the LTD's prospective pension liabilities. Has Ms. Goldman presented any**

1 **evidence in her Direct Testimony that such regulatory oversight is appropriate or is**  
2 **necessary?**

3 A. No. The applicant's predecessor company, Sprint Corporation, has had a long and well  
4 established track record concerning both its adherence to governing IRS regulations and  
5 its commitment to employees through proper management and funding of the pension  
6 plan for employees and retirees. The factual evidence of this can be seen in UTSE's  
7 response to Data Request 26 of the CWA's First Set of Data Requests to Sprint Nextel,  
8 which I have included as Attachment KWD-8 to this Rebuttal Testimony. The response  
9 contains an independent Actuarial Valuation Report of the Sprint Retirement Pension  
10 Plan dated July 2005 performed by Watson Wyatt Worldwide.

11  
12 In referencing Attachment KWD-8, I would first draw attention to the independent  
13 actuaries' conclusion on page 1, which states "In our opinion, all methods, assumptions  
14 and calculations are in accordance with requirements of the Internal Revenue Code and  
15 ERISA, and the procedures followed and presentation of results are in conformity with  
16 generally accepted actuarial principles and practices." Looking next at page 6 of this  
17 report and the section titled "Funded Ratios", the reader can see that all three of the  
18 pension asset to liabilities valuation comparisons presented support a conclusion of a  
19 securely funded pension plan. Ms. Goldman's vague references to the pension funding  
20 problems of Lucent and Global Crossing clearly have no bearing or weight given the  
21 verifiable, independent financial security of Sprint's pension plan assets and liabilities as  
22 demonstrated in this independent actuarial review and report.

PUBLIC VERSION

1 As I explained above, Ms. Goldman has failed to demonstrate that a condition is required  
2 because the factual circumstances of these other instances are not applicable or relevant  
3 to LTD Holding Company, particularly in light of our historical track record.

4 Nonetheless, I have also included at Attachment KWD-9 to this Rebuttal Testimony to  
5 further support our position that the condition requested by Ms. Goldman -- *i.e.*,  
6 regulatory conditions that impose additional Authority oversight regarding the allocation  
7 of pension assets and liabilities -- is unnecessary and inappropriate on a prospective basis.

8 Attachment KWD-8 is an affidavit signed by the LTD Holding Company's Chief  
9 Financial Officer -- Designee Mr. Gene M. Betts. This Senior Officer of the LTD  
10 Holding Company reiterates the applicant's commitment to an equitable allocation of  
11 pension plan assets and liabilities that complies with all applicable governing laws and  
12 rules and continues the legacy of a financially secure pension plan for LTD Holding  
13 Company employees and retirees. I believe that Attachment KWD-8 allows the  
14 Authority to proceed with the requested separation transaction approval without the need  
15 for the condition requested (but not otherwise supported) in Ms. Goldman's Direct  
16 Testimony.

17  
18 **Q. Mr. Bett's affidavit states that Sprint Nextel's spinoff of pension plan assets and**  
19 **liabilities will comply fully with the Internal Revenue Service Section 414(l). Are**  
20 **you familiar with Section 414(l) and if so can you please summarize its**  
21 **requirements?**

22 **A.** Yes, I would be glad to do so. The title of Section 414(l) is descriptive and helpful in and  
23 of itself and reads as follows, "Merger and consolidations of plans or transfers of plan

1 assets". As this title implies this IRS code governs the transfers of pension plan assets  
2 and liabilities between plans such that each resulting plan receives a level of assets and  
3 liabilities which ensures that each plan participant will receive the pension benefit he or  
4 she was entitled to immediately before the merger, consolidation or transfer. A  
5 company's compliance with this governing IRS requirement is reviewed and evidenced  
6 by the company's filing with the IRS a Form 5310-A which describes the assignment of  
7 plan assets and liabilities in compliance with applicable regulations including 414(l). It is  
8 helpful to further note that this report will be prepared by the independent actuarial firm  
9 of Watson Wyatt Worldwide. Thus Mr. Bett's affidavit evidences Sprint Nextel's  
10 commitment to conduct the plan assets and liabilities transfers and associated filings with  
11 the IRS in compliance with governing laws, rules and regulations. No further oversight  
12 or conditions are necessary.

13  
14 **Q. Would CWA's requested condition to assign pension plan assets based on**  
15 **prospective pension liabilities comply with the governing IRS regulation 414(l) you**  
16 **just explained?**

17 A. No it would not. The fact that CWA continues to request such an approach indicates a  
18 lack of understanding for the subject matter and further evidences why this issue is best  
19 left to the combined expertise and oversight of the IRS and Watson Wyatt Worldwide.

20  
21 **Q. Have these same assurances and explanations you provide in this Rebuttal**  
22 **Testimony been previously communicated to CWA in other states associated with**  
23 **proposed separation transaction?**

PUBLIC VERSION

1 A. Yes. I provided these same information items and assurances in my testimony in  
2 Pennsylvania. It is noteworthy that this information was satisfactory to CWA such that  
3 they withdrew their originally requested condition relative to pension plan asset  
4 assignment from that case (effectively the same condition CWA now requests in  
5 Tennessee). I have included the applicable section of the Pennsylvania Public Utilities  
6 Commission hearing transcript as Attachment KWD-10 to this Rebuttal Testimony. Mr.  
7 Scott Rubin provided legal representation for CWA at the Pennsylvania hearing and his  
8 statement reads as follows:

9  
10 “Mr. Rubin: Thank you, you Honor. As an initial matter, CWA has considered the  
11 testimony of Mr. Dickerson this morning concerning the pension issue and has  
12 reviewed that with CWA’s in-house pension experts during the lunch break.  
13 As a result of Mr. Dickerson’s representations today and the affidavit for Mr.  
14 Bett’s that’s attached to Mr. Dickerson’s rejoinder, CWA will not be contesting  
15 the applicants proposed pension allocation and will not be seeking any  
16 commission action on that issue. “

17  
18 I therefore urge this Authority to ignore the unnecessary and unworkable condition for  
19 pension asset assignment put forth by Ms. Goldman.

20  
21 **Q. Does this conclude your Rebuttal Testimony?**

22 A. Yes.

**ATTACHMENT KWD-8**

**Actuarial Valuation Report of the Sprint Retirement Pension Plan,  
July 2005, Watson Wyatt Worldwide**

**\*\*\* NO PUBLIC VERSION \*\*\***

**ATTACHMENT KWD-9**

**Affidavit of Gene M. Betts, Senior Vice President for Corporate  
Finance/Treasurer for Sprint Nextel Corporation & Designated  
Chief Financial Officer of LTD Holding Company**

**\*\*\* PUBLIC \*\*\***

BEFORE THE TENNESSEE REGULATORY AUTHORITY

NASHVILLE, TENNESSEE

In the Matter of )  
 )  
Application of Sprint Nextel Corporation )  
for Approval of the Transfer of Control of )  
United Telephone-Southeast, Inc., Sprint )  
Long Distance, Inc and Sprint Payphone )  
Services, Inc. From Sprint Nextel )  
Corporation to LTD Holding Company. )

Docket No. 05-00240

---

**AFFIDAVIT OF GENE M. BETTS IN SUPPORT OF THE APPLICATION OF  
SPRINT NEXTEL CORPORATION FOR APPROVAL  
OF THE TRANSFER OF CONTROL**

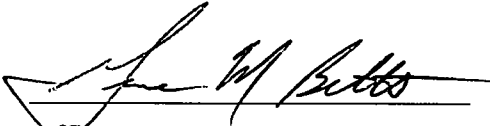
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Gene M. Betts, being first duly sworn, states as follows:

1. My name is Gene M Betts. I am presently Senior Vice President for Corporate Finance for Sprint Nextel Corporation and have been designated Chief Financial Officer of LTD Holding Company at the time of separation. My business address is 5454 W. 110<sup>th</sup> Street, Overland Park, KS 66211.
2. I have been employed by Sprint Corporation for 18 years.
3. Before being appointed Chief Financial Officer-Designee for LTD Holding Company, I served in the following positions for Sprint: (i) AVP Tax and VP Tax, (ii) SVP Finance-LDD, (iii) SVP Corporate Finance-Financial Planning, Mergers & Acquisitions and Taxes, and (iv) SVP Corporate Finance & Treasurer.
4. The purpose of my affidavit is to provide additional information relating to the equitable allocation of defined benefit pension plan assets in the event of an anticipated plan spinoff, and also to the LTD Holding Company's commitment to appropriately fund its defined benefit pension plan after it is separated from the Sprint Retirement Pension Plan (the "Plan").
5. The Plan was established effective January 1, 1966 as a defined benefit pension plan

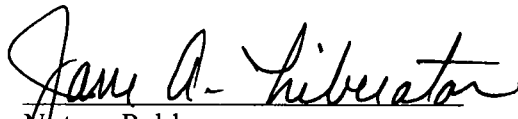
6. The Plan has received a favorable determination from the Internal Revenue Service that it is a tax-qualified plan as defined by Section 401(a) of the Internal Revenue Code (“Code”).
7. Since the enactment of the Employee Retirement Income Security Act (“ERISA”) in 1974, the Plan has always been funded in compliance with ERISA’s funding requirements
8. Internal Revenue Code Section 414(l) governs defined benefit plan spinoffs, with the intent of protecting the interests of plan participants and plan sponsors including an appropriate allocation of plan assets.
9. The planned spinoff of the Plan’s assets and liabilities will be conducted in full compliance with 414(l) and its associated regulations.
10. The LTD Holding Company recognizes the Plan as an important part of our strategy to attract, motivate, and retain employees, and will continue to make timely contributions to the Plan in accordance with federal funding requirements in fulfillment of our commitment to employees’ retirement security.

I hereby declare under the penalty of perjury that the foregoing statements are true,  
correct, and complete to the best of my knowledge Further, the affiant sayeth not.

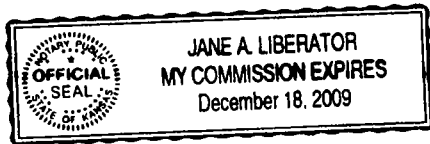
  
Affiant

Sworn to and subscribed before me

this 22nd day of December 2005.

  
Notary Public

(Seal)



My Commission Expires Dec. 18, 2009

**ATTACHMENT KWD-10**

**Pennsylvania Public Utilities Commission Hearing Transcript,  
Selected Excerpts**

**\*\*\* PUBLIC \*\*\***

\*\*\*THIS TRANSCRIPT CONTAINS PROPRIETARY  
AND HIGHLY CONFIDENTIAL INFORMATION\*\*\*

COMMONWEALTH OF PENNSYLVANIA  
PUBLIC UTILITY COMMISSION

-----x  
Joint Application of The United Telephone :  
Company of Pennsylvania d/b/a Sprint, and : Docket Nos.  
of Sprint Long Distance, Inc. : A-313200F0007  
: A-311379F0002  
For all approvals required under the :  
Pennsylvania Public Utility Code in :  
connection with changes of control of :  
The United Telephone Company of :  
Pennsylvania d/b/a Sprint, and of Sprint :  
Long Distance, Inc. :  
Initial Hearing :  
-----x

Pages 16 through 154      Hearing Room 2  
                                  Keystone Building  
                                  Harrisburg, Pennsylvania  
                                  Friday, December 2, 2005

Met, pursuant to notice, at 10:00 a.m.

BEFORE:

SUSAN D. COLWELL, Administrative Law Judge

APPEARANCES:

ZSUZSANNA E. BENEDEK, Esquire  
240 North Third Street, Suite 201  
Harrisburg, Pennsylvania 17101  
(For Sprint and United Telephone Company of  
Pennsylvania)

1 APPEARANCES: (Continued)

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16 Harrisburg, Pennsylvania 17105-3265  
(For Office of Trial Staff)

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Transcript from December 2nd Hearing.txt

2 MR. RUBIN: No objection, your Honor.

3 JUDGE COLWELL: They are admitted.

4 (Whereupon, the documents were marked  
5 as Statement Nos. 1.0, 1.1, 1.2, 2.0, 2.1,  
6 2.2, 3.0, 3.1, 3.2, 4.0, 4.1, 4.2, 5.0, and  
7 5.1 for identification, and were received in  
8 evidence.)

9 MS. BENEDEK: One final point. At the end of  
10 the hearing, we will insert to the back of each of them the  
11 affidavits that were provided.

12 JUDGE COLWELL: Do you have affidavits for --  
13 could you just list those?

14 MS. BENEDEK: We have affidavits, your Honor,  
15 for three of the joint applicant witnesses: John W. Mayo,  
16 Richard A. Hrip, and Kevin P. Collins, all of whom have been  
17 stipulated to for cross-examination purposes.

18 JUDGE COLWELL: Okay. I think we're all  
19 up-to-date. Do you have anything else?

20 MS. BENEDEK: I believe that is it, your  
21 Honor.

22 JUDGE COLWELL: I will turn it over to Mr.  
23 Rubin.

Start  
quote

24 MR. RUBIN: Thank you, your Honor. As an  
25 initial matter, CWA has considered the testimony of Mr.

□

1 Dickerson this morning concerning the pension issue and has  
2 reviewed that with CWA's in-house pension experts during the

3 lunch break.

4 As a result of Mr. Dickerson's  
5 representations today and the affidavit for Mr. Betts that's  
6 attached to Mr. Dickerson's rejoinder, CWA will not be  
7 contesting the applicants proposed pension allocation and  
8 will not be seeking any commission action on that issue.

End quote

9 So hopefully that will simplify things for  
10 your Honor as well as for those of us who have to submit  
11 briefs in a couple of weeks. And with that, we would -- I  
12 would call to the stand Sumanta Ray.

13 JUDGE COLWELL: Raise your right hand,  
14 please.  
15 Whereupon,

16 SUMANTA RAY  
17 having been duly sworn, testified as follows:

18 JUDGE COLWELL: Thank you. Please be seated.

19 Go ahead, Mr. Rubin.

20 MR. RUBIN: Thank you, your Honor.

21 DIRECT EXAMINATION

22 BY MR. RUBIN:

23 Q. Mr. Ray, first a reminder that because of the  
24 acoustics in here, please keep your voice up and speak  
25 slowly so we can all follow it before it bounces around the

□

1 room. And then could you please state your name and spell  
2 it for the court reporter?

BEFORE THE TENNESSEE REGULATORY AUTHORITY

NASHVILLE, TENNESSEE

In the Matter of: )  
 )  
Application of Sprint Nextel Corporation )  
for Approval of the Transfer of Control of )  
United Telephone-Southeast, Inc., Sprint )  
Long Distance, Inc. and Sprint Payphone )  
Services, Inc. From Sprint Nextel )  
Corporation to LTD Holding Company. )

Docket No. 05-00240

**REBUTTAL TESTIMONY OF DR. BRIAN K. STAIHR IN SUPPORT OF THE  
APPLICATION OF SPRINT NEXTEL CORPORATION FOR APPROVAL OF THE  
TRANSFER OF CONTROL**

**\*\*\* CONFIDENTIAL VERSION \*\*\***

**SECTION I: NAME/BACKGROUND/PURPOSE**

**Q. Please state your name, title, and business address.**

A. My name is Brian K. Stahr. I am currently employed by Sprint Nextel Corporation as Senior Regulatory Economist in the Department of Law and External Affairs. My business address is 6450 Sprint Parkway, Overland Park, Kansas 66251.

**Q. Following the separation of the local telephone companies from Sprint Nextel, what will be your title?**

A. I will be Director-Policy/Economist for the new stand-alone company, referred to in this proceeding as LTD Holding Company.

**Q. Please briefly describe your educational background and work experience.**

A. I hold a B.A. in Economics from the University of Missouri-Kansas City, and an M.A. and Ph.D. in Economics from Washington University in St. Louis. My field of specialization is Industrial Organization, which includes both Regulation and Theory of the Firm.

I began working with Sprint's Regulatory Policy Group in 1996. In my current position I am responsible for the development of state and federal regulatory and legislative policy for all subsidiaries of Sprint Nextel Corporation, including Sprint Nextel's various incumbent local telephone companies, its wireless entities, and its long distance and competitive local exchange carrier services. I am also responsible for the coordination of

CONFIDENTIAL VERSION

1 policy across business units. My specific responsibilities include 1) ensuring that Sprint  
2 Nextel's policies are based on sound economic reasoning, 2) undertaking or directing  
3 economic / quantitative / financial analysis to provide support for Sprint Nextel's  
4 policies, 3) advocating those policies, and 4) conducting original research. The specific  
5 policy issues that I have addressed include pricing and costing, cost of capital, access  
6 reform, local competition including interconnection and unbundling issues, universal  
7 service, and more.

8  
9 In my position I have testified before Congress on telecommunications issues, and my  
10 research has also been used in Congressional oversight hearings. I have also served as  
11 Sprint's representative in closed Senate workshops on telecom reform. Since the passage  
12 of the Telecommunications Act of 1996 I have appeared before Commissions or Boards  
13 of the following states: Texas, Florida, Kansas, New Jersey, Pennsylvania, North  
14 Carolina, South Carolina, Nevada, Illinois, Tennessee, Oregon, California, Georgia, New  
15 Mexico, Virginia, Minnesota, Nebraska, and Missouri. I have also worked extensively  
16 with the Federal Communication Commission's (FCC) staff and presented original  
17 research to the FCC.

18  
19 In January 2000 I left Sprint temporarily to serve as Senior Economist for the Federal  
20 Reserve Bank of Kansas City. There I was an active participant in the Federal Open  
21 Market Committee process, the process by which the Federal Reserve sets interest rates.  
22 In addition, I conducted original research on telecommunication issues and the effects of

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deregulation. Portions of that research are publicly available at  
<http://www.kc.frb.org/RuralCenter/MainSt2000.htm>. I returned to Sprint in December  
2000.

For the past nine years I have also served as Adjunct Professor of Economics at Avila  
University in Kansas City, Missouri. There I teach both graduate and undergraduate  
level courses.

Prior to my work in Sprint's Regulatory Policy Group I served as Manager-Consumer  
Demand Forecasting in the marketing department of Sprint's Local Telecom Division.  
There I was responsible for forecasting the demand for services in the local market,  
including basic local service, and producing elasticity studies and economic and  
quantitative analysis for business cases and opportunity analyses.

**Q. What is the purpose of your Rebuttal Testimony?**

A. In my Rebuttal Testimony I respond to the Direct Testimony of Ms. Debbie Goldman,  
filed on behalf of the Communications Workers of America ("CWA") on December 7,  
2005. Specifically, I address several misstatements, incorrect conclusions, and inaccurate  
assumptions made by Ms. Goldman in her testimony.

**SECTION II: MS. GOLDMAN - FCC ISSUES**

**Q. On pages 5-9 of her Confidential Direct Testimony, Ms. Goldman discusses a letter submitted by the (then) CEOs of Sprint and Nextel, Gary Forsee and Tim Donahue to the FCC on August 2, 2005. Are you familiar with that letter?**

A. Yes I am. In the letter Messrs. Forsee and Donahue state their intention that the New Local Company "...will be a financially secure, Fortune 500 company." Toward that end, they state that the company will receive an equitable debt and asset allocation at the time of the separation.

**Q. On page 6 of her Confidential Direct Testimony, Ms. Goldman claims that the proposed capital structure is inconsistent with the commitments made in that letter. Is she correct?**

A. No. The arguments presented in Ms. Goldman's testimony are so fundamentally flawed that it is necessary to respond to them on multiple levels.

First, it is necessary to point out that Ms. Goldman's entire method for determining whether a debt and asset allocation is "fair and equitable" is simplistic and devoid of any analysis. Apparently Ms. Goldman believes that an allocation is "fair and equitable" if it produces two numbers that are the same. On page 7 of her Confidential Direct Testimony she concludes that the allocation of debt and assets is not "fair and equitable" because (according to her flawed calculation) the percent of debt is different than the

1 percent of assets. She presents no other line of reasoning, no other argument, no data, no  
2 analysis, no study; she produces nothing else in her testimony except to say the two  
3 percentages are different from each other. Then, on page 9 of her Confidential Direct  
4 Testimony, she concludes that the capital structure of the LTD Holding Company is not  
5 “fair and equitable” because it is different from the capital structure of Sprint Nextel.  
6 Again, there is no evaluation or analysis presented; her sole argument is that the two  
7 companies have different capital structures. It is only possible to conclude that Ms.  
8 Goldman’s entire investigation into this issue can be reduced down to this: “fair and  
9 equitable” means “the same” while “different” must mean, by default, neither fair nor  
10 equitable.

11  
12 **Q. What are the fundamental flaws in such an approach?**

13 A. The first flaw is that Ms. Goldman’s entire argument confuses “equitable” with  
14 “equivalent”. The FCC letter that Ms. Goldman cites did not say, “...a fair and  
15 equivalent” allocation of assets and debt. If it had, then a comparison of relative amounts  
16 *might* make some sense, assuming they were calculated correctly. (For more on this  
17 point, see the Rebuttal Testimony of Sprint Nextel witness Mr. Kent Dickerson which I  
18 refer to below.) However, even then there would be serious problems with any claim that  
19 an allocation was fair just because it was equivalent. For example, it would be an  
20 “equivalent” allocation of assets and debt if LTD Holding Company received 20% of the  
21 assets and 20% of the debt of Sprint Nextel, or 90% of the assets and 90% of the debt.  
22 That does not mean either allocation is fair, much less reasonable, appropriate, optimal or

CONFIDENTIAL VERSION

1 logical. Yet it appears that both such allocations would meet Ms. Goldman's standard  
2 since they reflect amounts that are "the same".  
3

4 The next flaw is that apparently Ms. Goldman does not understand that the act of  
5 allocating assets and debt is a means to an end, not an end in and of itself. By this I  
6 mean, when a company is separating into two parts it is doing so for a reason. In the case  
7 of Sprint Nextel and the New Local Company, the reason is a continuing and growing  
8 conflict between Sprint Nextel's strategic direction and the local companies' strategic  
9 direction. The allocation of assets is done with the goal of each company having the  
10 requisite assets needed to successfully engage in its business and pursue its strategic  
11 direction. For example, it makes sense to allocate access lines to the New Local  
12 Company; it does not make sense to allocate wireless spectrum to the new local  
13 company. Therefore, there is some subset of assets that is both *right* and *reasonable* to  
14 be allocated to LTD Holding Company, and that subset is what it is whether it represents  
15 10% or 20% or 40% or 95% of the total assets. Making sure that LTD has the assets it  
16 needs to pursue its business is what makes an allocation of assets *equitable*; not some  
17 number or percentage that is attached to it. More on this issue is discussed in the  
18 Rebuttal Testimony of Sprint Nextel witness Mr. Kent Dickerson, where he explains that  
19 the assets allocated to LTD Holding Company are indeed right and reasonable.  
20

21 The same is true for debt. Once the right subset of assets has been allocated to the LTD,  
22 a decision must be made as to how the LTD company should be capitalized. Finance

1 theory fundamentals tell us that how a company is capitalized affects the value of the  
2 company, because it determines the company's cost of capital. Therefore, just as in the  
3 case of assets where there was a "right" amount, there is a "right" amount of debt for the  
4 LTD to have. And the "right" amount of debt is not zero. The "right" amount of debt is  
5 the amount that minimizes the company's cost of capital, thereby maximizing the value  
6 of the firm. Therefore, just as in the case of assets, there is some amount of debt that is  
7 right and reasonable for LTD. And just as in the case of assets, that amount is what it is  
8 whether it represents 10% or 30% or 90% of existing debt. Making sure that LTD has the  
9 right amount of debt to minimize its cost of capital and maximize the value of the firm is  
10 what makes an allocation of debt *equitable*, not some percentage that is attached to it.

11  
12 The fundamental flaw in Ms. Goldman's approach is that she apparently has no interest  
13 in *why* LTD has a certain amount of assets or a certain amount of debt; she only cares (for  
14 some reason) that these amounts be the same. No place in her testimony does she explain  
15 why she believes the same percentage of assets and debt is right, or desirable. No place  
16 in her testimony does she explain how requiring the percentage of assets and debt to be  
17 the same accomplishes the goals of ensuring the company can pursue its business while  
18 maximizing the value of the firm. In essence, she has taken the entire discipline of  
19 optimal capitalization theory and ignored it completely.

20  
21 **Q. Is there any a priori reason to believe it makes sense for the capital structure of**  
22 **LTD Holding Company and the capital structure of Sprint Nextel to be the same?**

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1 A. No. Because the companies each operate with a different strategic emphasis, each will  
2 represent a different level and type of risk to any potential investor. Therefore, because  
3 any investor's expected return is a function of risk, each company will require a different  
4 return to its respective equity or debt investors. This suggests that each will have a  
5 different cost of equity and cost of debt; accordingly, each will have a different capital  
6 structure that minimizes the overall weighted cost of capital. This means each will have a  
7 different capital structure that maximizes the value of the firm. Unless Ms. Goldman has  
8 produced an analysis where she has determined that the same capital structure for both  
9 firms minimizes each firm's cost of capital, there is no justification for believing that it  
10 makes any sense at all for the two firms—LTD Holding Company and Sprint Nextel—to  
11 have similar capital structures.

12  
13 **Q. Are there additional factors that must be considered when determining whether a**  
14 **debt and asset allocation are equitable; that is, right and reasonable?**

15 A. Yes. First, at several points throughout her Confidential Direct Testimony that Ms.  
16 Goldman suggests the relative amount of debt on the LTD Holding Company is  
17 excessive.<sup>1</sup> It is not. As the Houlihan Lokey "Report to Sprint Nextel Corporation"  
18 (see the Direct Testimony of Kevin P. Collins, Attachment KPC-2) clearly demonstrates  
19 on page 7, LTD Holding Company will actually be somewhat less leveraged, on average,  
20 than the comparable companies in the industry. The leverage of the new stand-alone

---

<sup>1</sup> For example, page 15 line 15 (... large amount of debt...), page 14 line 16 (...heavy debt load...), page 13 line 19-20 (...highly leveraged capital structure...).

1 company is quite comparable to that found in the capital structures of other companies in  
2 the industry, as discussed Direct Testimony and attachment of Mr. Collins of Houlihan  
3 Lokey. This fact is important because, as discussed elsewhere in this testimony, the act  
4 of separating the local operations into a stand-alone corporation requires the re-  
5 capitalization of the LTD Holding Company as a new, unique entity. At the end of the  
6 day, LTD Holding Company should have leverage and a capital structure that is  
7 reasonable and reasonably similar to comparable firms in its respective industry. The  
8 proposed equity-to-capital ratio for the LTD Holding Company is [BEGIN  
9 CONFIDENTIAL] 56.4% [END CONFIDENTIAL]. The average equity-to-capital  
10 ratio of the six comparable firms as contained in Mr. Collins' analysis is approximately  
11 54%. In fact, looking at Mr. Collins' analysis, if one examines the two comparable firms  
12 which come closest to the size and scale of the LTD Holding Company (Citizens and  
13 CenturyTel), the average of those two firms' equity-to-capital ratios is 56%, [BEGIN  
14 CONFIDENTIAL] nearly identical to the proposed capital structure of LTD Holding  
15 Company. [END CONFIDENTIAL]

16  
17 ***SECTION III: MS. GOLDMAN AND FINANCIAL RESTRICTIONS***  
18

1        *At several points in her testimony Ms. Goldman also discusses what she considers*  
2        *restrictions of the use of cash that the LTD Holding Company faces.<sup>2</sup> Are her*  
3        *observations correct?*

4  
5        No. It appears that Ms. Goldman believes that excess cash must be used to reduce  
6        principal on debt. This is an incorrect assumption. As referenced in the testimony of  
7        witness Kent Dickerson, there are no restrictions on what LTD can or may do with its  
8        cash. LTD is not obligated in any way to use excess cash to pay down its debt. There is  
9        no requirement or condition for LTD Holding Company to use excess cash balances to  
10       pay down debt. Paying down debt is one option available to LTD Holding Company, but  
11       it is certainly not the only option. There may be many better uses for any available cash  
12       balances. For example, if there is a new business endeavor that would potentially  
13       produce a higher return (that is, higher than the cost of debt), then any available cash  
14       would clearly be more efficiently used in that business endeavor, rather than in paying  
15       down debt. In fact, it is possible that such a scenario—a business opportunity that offers  
16       a better use for discretionary cash than retiring debt—would produce an expansion in  
17       capital spending for LTD Holding Company. As referenced in Mr. Dickerson's  
18       testimony, it is entirely possible that LTD Holding Company's best business decision  
19       could be to maintain relative amounts of debt—particularly at these low costs—and use  
20       any excess cash for the development of new products, services, or infrastructure that  
21       enhance its core business.

---

<sup>2</sup> See Confidential Direct Testimony at page 12 lines 5-6 , 20-21.

***Does this incorrect assumption—that LTD Holding Company must use excess cash to pay down its debt—lead Ms. Goldman to make other incorrect assumptions?***

Yes. She suggests that, because of this debt and its purported “restrictions”, LTD will have limited financial flexibility to maintain and grow the business and take advantage of opportunities as they arise (Confidential Direct Testimony at page 15, lines 15-18). This statement is simply factually incorrect. We know this by examining the interest coverage ratio for LTD, which measures the ability of a firm to use its earnings to cover its interest obligations. The higher an interest coverage ratio, the more flexibility a firm has regarding how it wants to use its earnings. This measure for LTD and comparable companies is also found on page 7 of the Houlihan Lokey “Report to Sprint Nextel Corporation”. Looking at that, we can see that the interest coverage ratio for LTD is almost twice as high as the average for comparable companies. This shows that LTD Holding Company will have, on average, more resources and more flexibility than comparable firms in the industry, certainly not less.

***SECTION III: MS. GOLDMAN AND THE “PURCHASE” OF LTD ASSETS***

**Q. On page 4 of her Confidential Direct Testimony, Ms. Goldman discusses what she characterizes as a purchase of assets. Please comment on her discussion.**

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1     A.     On that page of her testimony, lines 7-8, Ms. Goldman writes the following words: “LTD  
2             will use all of the newly issued debt to pay Sprint Nextel for LTD’s assets.” It is possible  
3             to respond to this issue in two different ways. First, it is important to clarify that what  
4             Ms. Goldman characterizes as “LTD assets” are Sprint Nextel’s assets that ultimately roll  
5             up to the books of Sprint Nextel. The assets on the books of United Telephone –  
6             Southeast, Inc. (“UTSE”) roll up to the books of LTD, which roll up to the books of  
7             Sprint Nextel. Similarly, the equity and liabilities of UTSE roll up as well. Following  
8             the separation there will be a new, distinct corporation formed (LTD Holding Company)  
9             which will have—in addition to a separate Board of Directors, management team, stock  
10            listing, etc.—its own separate assets, what Ms. Goldman calls the “LTD assets”. In fact,  
11            those assets will have been contributed to the new company by Sprint Nextel. And it will  
12            have its own liabilities: the debt discussed above. As mentioned above, what will have  
13            been accomplished is the re-capitalization of a unique, distinct company in such a way as  
14            to produce a reasonable capital structure, one that is neither over-leveraged nor under-  
15            leveraged, and one that is comparable to other industry participants. The allocation of  
16            assets and debt are indeed equitable, fair, reasonable, and appropriate. The LTD Holding  
17            Company will have all of the assets it requires to succeed in the business in which it  
18            operates. It will have an appropriate amount of leverage that allows the company to  
19            minimize its cost of capital and maximize the value of the firm. Ms. Goldman has  
20            provided zero evidence to the contrary.

21

1   **Q.    You indicated that this issue could be looked at in two different ways. What is the**  
2       **second way?**

3   **A.    Ms. Goldman's reference to "paying" for assets, combined with the slightly**  
4       sensationalistic question posed on page 4 of Ms. Goldman's testimony ("Do I understand  
5       you correctly? LTD will pay Sprint Nextel for the LTD assets?") suggest that Ms.  
6       Goldman believes some type of purchase is taking place. Technically a purchase is not  
7       taking place, but it can be useful to use such a mental construct to understand the nature  
8       of the transaction.

9  
10       As stated above, the assets that Ms. Goldman refers to as "LTD assets" in fact roll up to  
11       the books of Sprint Nextel. Upon separation those assets will no longer be on the books  
12       of, or roll up to, or be owned by, Sprint Nextel. They will be completely owned by the  
13       new local holding company, LTD Holding Company. It is possible to view the new notes  
14       and the proceeds of the bank debt as being used to "purchase" those assets. In fact, if  
15       Sprint's local operations were being sold to a third party it is extremely likely that the  
16       purchase would be financed, at least in part, in a very similar fashion; what is key,  
17       however, is that in such a case those proceeds would go to Sprint Nextel (i.e. the seller) --  
18       not to LTD, which is the company being purchased. If in fact, as Ms. Goldman suggests  
19       (page 23 of her Confidential Direct Testimony, lines 11-13), the proceeds should be  
20       retained by LTD Holding Company it would be akin to a buyer borrowing cash to buy a  
21       house, buying the house, but getting to keep all the cash as well.

1 However, the pitfall of using this mental construct is that it tempts one to ask, "Haven't  
2 the Sprint Nextel local companies been paying for these assets all along?" The answer,  
3 of course, is no; when a subsidiary pays a dividend to its parent, a dividend which comes  
4 from cash flows that were a result of the subsidiary providing some good or service to  
5 end-users, the subsidiary is not purchasing itself.

6  
7 The characterization of a "purchase" is also technically incorrect because it suggests there  
8 are two unique sides or parties involved. There are not. Sprint Nextel *shareholders*  
9 currently own all the Sprint Nextel assets, including the local telephone company assets,  
10 as well as all liabilities. Upon separation, the same set of shareholders will still own the  
11 same set of assets (and liabilities). They will simply own them in two distinct  
12 corporations.

13  
14 ***SECTION IV: MS. GOLDMAN AND INDICATIVE RATINGS***

15  
16 **Q. On pages 13 and 14 of her Confidential Direct Testimony, Ms. Goldman suggests**  
17 **that the major bond rating agencies have reacted negatively to the LTD Holding**  
18 **Company's proposed capital structure. Is her observation correct?**

19 **A.** No it is not. Ms. Goldman's discussion of the bond rating agencies' opinions makes the  
20 error of confusing concerns about the local exchange carrier ("LEC") industry as a whole  
21 with concerns about LTD Holding Company's specific capital structure. For example, on  
22 page 13 Ms. Goldman includes a quote from [BEGIN CONFIDENTIAL] the Fitch

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1 letter that mentions a lack of growth opportunities [END CONFIDENTIAL] available to  
2 LTD Holding Company. It is true that Fitch's letter makes this reference, but the  
3 reference has nothing to do with LTD Holding Company's relative amounts of debt and  
4 equity. In fact, the paragraph from which Ms. Goldman's quote is taken does not include  
5 a single reference to debt, equity, leverage, or any other aspect of capital structure. In  
6 addition, the Fitch letter goes on to state that [BEGIN CONFIDENTIAL] they (Fitch)  
7 target a maximum leverage ratio for the company of 3.0X EBITDA. The reason this is  
8 important is because LTD Holding Company's leverage ratio is clearly *below* that  
9 threshold, while the comparable companies contained in the Houlihan Lokey analysis  
10 have an average leverage ratio well *above* that threshold [END CONFIDENTIAL]. Ms.  
11 Goldman is simply incorrect to suggest that Fitch is concerned about LTD Holding  
12 Company's capital structure.

13  
14 Similarly, the Moody's letter that Ms. Goldman cites on page 13 states quite clearly that  
15 [BEGIN CONFIDENTIAL] the indicative rating "...reflects Moody's concern about  
16 declining industry fundamentals for ILECs". In fact, Moody's explicitly states in the  
17 letter that "Sprint's credit metrics are generally strong for the assigned ratings levels." It  
18 is clear from their letter that Moody's would not look favorably on a decision by LTD  
19 Holding Company to increase the shareholder dividend, and no such decision is even  
20 being contemplated. [END CONFIDENTIAL]

21

1 Finally, it is most interesting that on page 13 Ms. Goldman also quotes from the S&P  
2 letter that was provided in response to a CWA data request that Ms. Goldman includes as  
3 an attachment to her testimony. The reason this is interesting is that Sprint Nextel's  
4 response to discovery stated quite clearly that **[BEGIN CONFIDENTIAL]** S&P had not  
5 been provided with the capital structure that is contained in the Sprint Nextel Application.  
6 In fact, the letter from S&P evaluates financial scenarios that are not even before the  
7 Authority. So for Ms. Goldman to suggest that S&P has concerns about the proposed  
8 capital structure is simply disingenuous since *S&P was never presented with the*  
9 *proposed capital structure for consideration.* **[END CONFIDENTIAL]**

10  
11 More importantly, in the same data request response, Sprint explained that **[BEGIN**  
12 **CONFIDENTIAL]** it believed S&P had adopted a decidedly negative outlook for the  
13 entire LEC industry, based on a statement made in a press release that states, "industry-  
14 wide business-risk concerns about rising cable telephony and wireless competition [that]  
15 will make it difficult for this unit to obtain an investment grade rating as a standalone  
16 entity, **regardless of the resulting capitalization**" (emphasis supplied). In other words,  
17 Ms. Goldman's conclusion regarding S&P is exactly backwards: they are not concerned  
18 because of LTD Holding Company's capital structure; their concerns are completely  
19 unrelated to LTD Holding Company's capital structure. **[END CONFIDENTIAL]**

20  
21 This fact is echoed in a more recent press release from S&P dated November 10, 2005,  
22 and included with this testimony as Attachment BKS-1. In that press release S&P

1 precisely echoes the statements included above. S&P writes, “Despite the relatively  
2 moderate proposed capital structure, strong EBITDA margins, and good discretionary  
3 cash flow characteristics, we are concerned about industry-wide business risk...” The  
4 statement could not be clearer; it is not the proposed capital structure of LTD Holding  
5 Company that S&P has concerns about. Rather, it is the industry in which we operate.

6  
7 In summary, it appears that Ms. Goldman would have the Authority believe that the  
8 capital structure and relative debt ratio of LTD Holding Company, as contained in the  
9 Application, have been negatively received by the major bond rating agencies. This is  
10 not true. As discussed in the testimony and attachments of witness Kevin P. Collins, the  
11 capital structure and associated metrics are in line with the metrics of comparable firms.

12 In fact, Fitch concluded its analysis with the following statement: [BEGIN  
13 **CONFIDENTIAL**] “The payout ratio provides the company with sufficient financial  
14 flexibility to continue investments in plant and growth opportunities. The payout ratio  
15 also provides the company with appropriate level of safety given the expectation of  
16 continued EBITDA erosion”. [END CONFIDENTIAL]

17  
18 ***SECTION V: MS. GOLDMAN AND NEGATIVE BOOK EQUITY***  
19

20 **Q. On pages 14-15 of her Confidential Direct Testimony, Ms. Goldman raises the issue**  
21 **of negative book equity, and specifically states that investors will be concerned by**  
22 **the existence of negative equity on the books. She states that if the company were to**

1       **go bankrupt, shareholders would be left with nothing. Please respond to these**  
2       **claims.**

3    A.     First, as explained in the testimony of Mr. Kevin Collins, negative book equity is often a  
4           function of accounting conventions, and does not reflect a company's value. Ms.  
5           Goldman's discussion of the impact of negative book equity on pages 14-15 contains no  
6           facts, and is nothing but conjecture. She suggests that it will be difficult to raise investor  
7           capital and describes a generic scenario in which (she claims) the company could go  
8           bankrupt, but she offers no reason as to why the scenario should be considered plausible  
9           or even remotely possible.

10  
11          The point that Ms. Goldman conveniently ignores is that the existence of positive book  
12          equity does not change her doomsday scenario in any way. If the transaction before the  
13          Authority was a sale, rather than a separation, the books of the LTD Holding Company  
14          would reflect billions of dollars of intangible goodwill, and book equity would be  
15          positive. In fact, of the six comparable companies contained in the Houlhan Lokey  
16          analysis, five of the six would have negative book equity were it not for the intangible  
17          goodwill on their balance sheets. They have positive book equity only because they have  
18          goodwill on their balance sheets. Of course, this goodwill mean nothing in the case of  
19          Ms. Goldman's doomsday scenario where a company (for some unknown reason) goes  
20          bankrupt. In the case of a bankruptcy, investors receiving nothing for goodwill. The  
21          point here is: Ms. Goldman's concern appears to be that negative equity would leave  
22          shareholders with nothing. In reality, the positive book equity on the books of the

1 majority of comparable companies would also leave shareholders with nothing.

2 Therefore, contrary to Ms. Goldman's claims, the hypothetical "concern" that she cites  
3 on page 14 is not a function of negative book equity, and is no more applicable to LTD  
4 Holding Company than to the majority of comparable firms identified in the Houlihan  
5 Lokey study.

6  
7 It is also worth noting that the letters from bond rating agencies that Ms. Goldman  
8 references in her testimony make no mention of any concern regarding book equity  
9 levels. Each of the agencies discusses the existing risks associated with the incumbent  
10 LEC business, and each of them was presented with information outlining the fact that  
11 LTD Holding Company would have negative equity on its books. Yet none comes to the  
12 same tragic conclusion that Ms. Goldman does regarding the "impact" of negative book  
13 equity. It is also worth noting that the *reason* Sprint Nextel has actively pursued the  
14 characteristics associated with investment grade ratings for its debt—as reflected in the  
15 indicative ratings—is to ensure that it is an attractive option for investors, and therefore  
16 will continue to be able to attract capital if the need exists.

17  
18 ***SECTION VI: SUMMARY OF RESPONSE TO MS. GOLDMAN***

19  
20 **Q. Please summarize your response to Ms. Goldman's testimony.**

21 **A.** Regarding Sprint's letter to the FCC, Ms. Goldman is incorrect when she suggests that  
22 the debt and asset allocation are not fair and equitable. The proposed capital structure

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1 that is before the Authority is appropriate, reasonable, and comparable to other  
2 companies in the industry. Furthermore it achieves the goals of lowering the company's  
3 cost of capital and increasing the value of the firm. Ms. Goldman's concerns regarding  
4 negative book equity are misplaced, and supported only by undocumented conjecture.  
5 And her characterization of letters from the major credit rating agencies is misleading.  
6 The agencies have concerns regarding the LEC industry, given increased competition, but  
7 these concerns will exist for LTD Holding Company whether it operates on its own or as  
8 part of a larger, nationwide, wireless-focused entity. The real question before this  
9 Authority is whether UTSE and LTD Holding Company will be better situated to face  
10 this increased competition on their own, where they have the flexibility, autonomy, and  
11 independence to meet their local customers' needs unencumbered by the demands of a  
12 larger carrier. The answer is clearly yes. The Authority should approve the proposed  
13 separation without any of the the conditions suggested by Ms. Goldman.

14  
15 **Q. Does this conclude your Rebuttal Testimony?**

16 **A. Yes it does.**

**ATTACHMENT BKS-1**

**Press Release from S&P Dated November 10, 2005**

**\*\*\* PUBLIC \*\*\***



Credit Ratings - Credit Ratings Actions

CLOSE

Credit Ratings &gt;&gt;&gt; Telecommunications Services



## Sprint Nextel Corp. Ratings For Local Division Remain On CreditWatch Negative

Primary Credit Analyst:

Eric Geil, New York (1) 212-438-7833;  
eric\_geil@standardandpoors.com

Publication date: 10-Nov-05, 15:32:27 EST

Reprinted from RatingsDirect

NEW YORK (Standard & Poor's) Nov 10, 2005--Standard & Poor's Ratings Services said today that its ratings on the debt of the local telephone division (Sprint Local) of Sprint Nextel Corp remain on CreditWatch with negative implications. The local division is composed of Centel Corp (BBB-/Watch Neg/--), Centel Capital Corp. (BBB-/Watch Neg/--), Central Telephone Co (BBB-/Watch Neg/--), Sprint - Florida, Inc. (BBB-/Watch Neg/--), and Carolina Telephone & Telegraph Co. (BBB-/Watch Neg/--). The implications were revised to negative from developing on Aug. 4, 2005, reflecting the potential that this entity could be rated below investment grade after its spin-off from Sprint Nextel.

"Despite the relatively moderate proposed capital structure, strong EBITDA margins, and good discretionary cash flow characteristics, we are concerned about industry-wide business risk from rising cable telephony and wireless substitution, which could eventually weaken the financial profile," said Standard & Poor's credit analyst Eric Geil. Sprint Nextel expects to complete the transaction in the second quarter of 2006 and has indicated that the standalone company will have about \$7.25 billion in debt, including roughly \$700 million in existing debt, and will pay \$300 million in annual dividends. The resulting debt to EBITDA will be about 2.5x, excluding any adjustments for operating leases or unfunded pension and other postretirement employee benefit obligations.

Sprint Local serves about 7.4 million switched access lines, making it the largest independent local phone company behind the regional Bell operating companies. About one third of access lines are in densely populated areas with more than 300 lines per square mile in such markets as Las Vegas, Nev., and Orlando, Tallahassee, and Naples, Fla. The rest are in less competitive mid-size and smaller markets.

Complete ratings information is available to subscribers of RatingsDirect, Standard & Poor's Web-based credit analysis system, at [www.ratingsdirect.com](http://www.ratingsdirect.com). All ratings referenced herein can be found on Standard & Poor's public Web site at [www.standardandpoors.com](http://www.standardandpoors.com); under Credit Ratings in the left navigation bar, select Find a Rating, then Credit Ratings Search.

Analytic services provided by Standard & Poor's Ratings Services ("Ratings Services") are the result of separate activities designed to preserve the independence and objectivity of ratings opinions. Credit ratings issued by Ratings Services are solely statements of opinion and not statements of fact or recommendations to purchase, hold, or sell any securities or make any other investment decisions. Accordingly, any user of credit ratings issued by Ratings Services should not rely on any such ratings or other opinion issued by Ratings Services in making any investment decision. Ratings are based on information received by Ratings Services. Other divisions of Standard & Poor's may have information that is not available to Ratings Services. Standard & Poor's has established policies and procedures to maintain the confidentiality of non-public information received during the ratings process.

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BEFORE THE TENNESSEE REGULATORY AUTHORITY

NASHVILLE, TENNESSEE

In the Matter of: )  
 )  
Application of Sprint Nextel Corporation )  
for Approval of the Transfer of Control of )  
United Telephone-Southeast, Inc., Sprint )  
Long Distance, Inc. and Sprint Payphone )  
Services, Inc. From Sprint Nextel )  
Corporation to LTD Holding Company. )

Docket No. 05-00240

**REBUTTAL TESTIMONY OF DR. BRIAN K. STAIHR IN SUPPORT OF THE  
APPLICATION OF SPRINT NEXTEL CORPORATION FOR APPROVAL OF THE  
TRANSFER OF CONTROL**

**\*\*\* PUBLIC VERSION \*\*\*  
("CONFIDENTIAL" MATERIAL REDACTED)**

1 **SECTION I: NAME/BACKGROUND/PURPOSE**

2 **Q. Please state your name, title, and business address.**

3 A. My name is Brian K. Staihr. I am currently employed by Sprint Nextel Corporation as  
4 Senior Regulatory Economist in the Department of Law and External Affairs. My  
5 business address is 6450 Sprint Parkway, Overland Park, Kansas 66251.

6  
7 **Q. Following the separation of the local telephone companies from Sprint Nextel, what**  
8 **will be your title?**

9 A. I will be Director-Policy/Economist for the new stand-alone company, referred to in this  
10 proceeding as LTD Holding Company.

11  
12 **Q. Please briefly describe your educational background and work experience.**

13 A. I hold a B.A. in Economics from the University of Missouri-Kansas City, and an M.A.  
14 and Ph.D. in Economics from Washington University in St. Louis. My field of  
15 specialization is Industrial Organization, which includes both Regulation and Theory of  
16 the Firm.

17  
18 I began working with Sprint's Regulatory Policy Group in 1996. In my current position I  
19 am responsible for the development of state and federal regulatory and legislative policy  
20 for all subsidiaries of Sprint Nextel Corporation, including Sprint Nextel's various  
21 incumbent local telephone companies, its wireless entities, and its long distance and  
22 competitive local exchange carrier services. I am also responsible for the coordination of

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1 policy across business units. My specific responsibilities include 1) ensuring that Sprint  
2 Nextel's policies are based on sound economic reasoning, 2) undertaking or directing  
3 economic / quantitative / financial analysis to provide support for Sprint Nextel's  
4 policies, 3) advocating those policies, and 4) conducting original research. The specific  
5 policy issues that I have addressed include pricing and costing, cost of capital, access  
6 reform, local competition including interconnection and unbundling issues, universal  
7 service, and more.

8  
9 In my position I have testified before Congress on telecommunications issues, and my  
10 research has also been used in Congressional oversight hearings. I have also served as  
11 Sprint's representative in closed Senate workshops on telecom reform. Since the passage  
12 of the Telecommunications Act of 1996 I have appeared before Commissions or Boards  
13 of the following states: Texas, Florida, Kansas, New Jersey, Pennsylvania, North  
14 Carolina, South Carolina, Nevada, Illinois, Tennessee, Oregon, California, Georgia, New  
15 Mexico, Virginia, Minnesota, Nebraska, and Missouri. I have also worked extensively  
16 with the Federal Communication Commission's (FCC) staff and presented original  
17 research to the FCC.

18  
19 In January 2000 I left Sprint temporarily to serve as Senior Economist for the Federal  
20 Reserve Bank of Kansas City. There I was an active participant in the Federal Open  
21 Market Committee process, the process by which the Federal Reserve sets interest rates.  
22 In addition, I conducted original research on telecommunication issues and the effects of

deregulation. Portions of that research are publicly available at  
<http://www.kc.frb.org/RuralCenter/MainSt2000.htm>. I returned to Sprint in December  
2000.

For the past nine years I have also served as Adjunct Professor of Economics at Avila  
University in Kansas City, Missouri. There I teach both graduate and undergraduate  
level courses.

Prior to my work in Sprint's Regulatory Policy Group I served as Manager-Consumer  
Demand Forecasting in the marketing department of Sprint's Local Telecom Division.  
There I was responsible for forecasting the demand for services in the local market,  
including basic local service, and producing elasticity studies and economic and  
quantitative analysis for business cases and opportunity analyses.

**Q. What is the purpose of your Rebuttal Testimony?**

A. In my Rebuttal Testimony I respond to the Direct Testimony of Ms. Debbie Goldman,  
filed on behalf of the Communications Workers of America ("CWA") on December 7,  
2005. Specifically, I address several misstatements, incorrect conclusions, and inaccurate  
assumptions made by Ms. Goldman in her testimony.

**SECTION II: MS. GOLDMAN - FCC ISSUES**

**Q. On pages 5-9 of her Confidential Direct Testimony, Ms. Goldman discusses a letter submitted by the (then) CEOs of Sprint and Nextel, Gary Forsee and Tim Donahue to the FCC on August 2, 2005. Are you familiar with that letter?**

**A.** Yes I am. In the letter Messrs. Forsee and Donahue state their intention that the New Local Company "...will be a financially secure, Fortune 500 company." Toward that end, they state that the company will receive an equitable debt and asset allocation at the time of the separation.

**Q. On page 6 of her Confidential Direct Testimony, Ms. Goldman claims that the proposed capital structure is inconsistent with the commitments made in that letter. Is she correct?**

**A.** No. The arguments presented in Ms. Goldman's testimony are so fundamentally flawed that it is necessary to respond to them on multiple levels.

First, it is necessary to point out that Ms. Goldman's entire method for determining whether a debt and asset allocation is "fair and equitable" is simplistic and devoid of any analysis. Apparently Ms. Goldman believes that an allocation is "fair and equitable" if it produces two numbers that are the same. On page 7 of her Confidential Direct Testimony she concludes that the allocation of debt and assets is not "fair and equitable" because (according to her flawed calculation) the percent of debt is different than the

1 percent of assets. She presents no other line of reasoning, no other argument, no data, no  
2 analysis, no study; she produces nothing else in her testimony except to say the two  
3 percentages are different from each other. Then, on page 9 of her Confidential Direct  
4 Testimony, she concludes that the capital structure of the LTD Holding Company is not  
5 “fair and equitable” because it is different from the capital structure of Sprint Nextel.  
6 Again, there is no evaluation or analysis presented; her sole argument is that the two  
7 companies have different capital structures. It is only possible to conclude that Ms.  
8 Goldman’s entire investigation into this issue can be reduced down to this: “fair and  
9 equitable” means “the same” while “different” must mean, by default, neither fair nor  
10 equitable.

11  
12 **Q. What are the fundamental flaws in such an approach?**

13 A. The first flaw is that Ms. Goldman’s entire argument confuses “equitable” with  
14 “equivalent”. The FCC letter that Ms. Goldman cites did not say, “...a fair and  
15 equivalent” allocation of assets and debt. If it had, then a comparison of relative amounts  
16 *might* make some sense, assuming they were calculated correctly. (For more on this  
17 point, see the Rebuttal Testimony of Sprint Nextel witness Mr. Kent Dickerson which I  
18 refer to below.) However, even then there would be serious problems with any claim that  
19 an allocation was fair just because it was equivalent. For example, it would be an  
20 “equivalent” allocation of assets and debt if LTD Holding Company received 20% of the  
21 assets and 20% of the debt of Sprint Nextel, or 90% of the assets and 90% of the debt.  
22 That does not mean either allocation is fair, much less reasonable, appropriate, optimal or

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1 logical. Yet it appears that both such allocations would meet Ms. Goldman's standard  
2 since they reflect amounts that are "the same".  
3

4 The next flaw is that apparently Ms. Goldman does not understand that the act of  
5 allocating assets and debt is a means to an end, not an end in and of itself. By this I  
6 mean, when a company is separating into two parts it is doing so for a reason. In the case  
7 of Sprint Nextel and the New Local Company, the reason is a continuing and growing  
8 conflict between Sprint Nextel's strategic direction and the local companies' strategic  
9 direction. The allocation of assets is done with the goal of each company having the  
10 requisite assets needed to successfully engage in its business and pursue its strategic  
11 direction. For example, it makes sense to allocate access lines to the New Local  
12 Company; it does not make sense to allocate wireless spectrum to the new local  
13 company. Therefore, there is some subset of assets that is both *right* and *reasonable* to  
14 be allocated to LTD Holding Company, and that subset is what it is whether it represents  
15 10% or 20% or 40% or 95% of the total assets. Making sure that LTD has the assets it  
16 needs to pursue its business is what makes an allocation of assets *equitable*; not some  
17 number or percentage that is attached to it. More on this issue is discussed in the  
18 Rebuttal Testimony of Sprint Nextel witness Mr. Kent Dickerson, where he explains that  
19 the assets allocated to LTD Holding Company are indeed right and reasonable.  
20

21 The same is true for debt. Once the right subset of assets has been allocated to the LTD,  
22 a decision must be made as to how the LTD company should be capitalized. Finance

1 theory fundamentals tell us that how a company is capitalized affects the value of the  
2 company, because it determines the company's cost of capital. Therefore, just as in the  
3 case of assets where there was a "right" amount, there is a "right" amount of debt for the  
4 LTD to have. And the "right" amount of debt is not zero. The "right" amount of debt is  
5 the amount that minimizes the company's cost of capital, thereby maximizing the value  
6 of the firm. Therefore, just as in the case of assets, there is some amount of debt that is  
7 right and reasonable for LTD. And just as in the case of assets, that amount is what it is  
8 whether it represents 10% or 30% or 90% of existing debt. Making sure that LTD has the  
9 right amount of debt to minimize its cost of capital and maximize the value of the firm is  
10 what makes an allocation of debt *equitable*, not some percentage that is attached to it.

11  
12 The fundamental flaw in Ms. Goldman's approach is that she apparently has no interest  
13 in *why* LTD has a certain amount of assets or a certain amount of debt; she only cares (for  
14 some reason) that these amounts be the same. No place in her testimony does she explain  
15 why she believes the same percentage of assets and debt is right, or desirable. No place  
16 in her testimony does she explain how requiring the percentage of assets and debt to be  
17 the same accomplishes the goals of ensuring the company can pursue its business while  
18 maximizing the value of the firm. In essence, she has taken the entire discipline of  
19 optimal capitalization theory and ignored it completely.

20  
21 **Q. Is there any a priori reason to believe it makes sense for the capital structure of**  
22 **LTD Holding Company and the capital structure of Sprint Nextel to be the same?**

1 A. No. Because the companies each operate with a different strategic emphasis, each will  
2 represent a different level and type of risk to any potential investor. Therefore, because  
3 any investor's expected return is a function of risk, each company will require a different  
4 return to its respective equity or debt investors. This suggests that each will have a  
5 different cost of equity and cost of debt; accordingly, each will have a different capital  
6 structure that minimizes the overall weighted cost of capital. This means each will have a  
7 different capital structure that maximizes the value of the firm. Unless Ms. Goldman has  
8 produced an analysis where she has determined that the same capital structure for both  
9 firms minimizes each firm's cost of capital, there is no justification for believing that it  
10 makes any sense at all for the two firms—LTD Holding Company and Sprint Nextel—to  
11 have similar capital structures.

12  
13 **Q. Are there additional factors that must be considered when determining whether a**  
14 **debt and asset allocation are equitable; that is, right and reasonable?**

15 A. Yes. First, at several points throughout her Confidential Direct Testimony that Ms.  
16 Goldman suggests the relative amount of debt on the LTD Holding Company is  
17 excessive.<sup>1</sup> It is not. As the Houlihan Lokey "Report to Sprint Nextel Corporation"  
18 (see the Direct Testimony of Kevin P. Collins, Attachment KPC-2) clearly demonstrates  
19 on page 7, LTD Holding Company will actually be somewhat less leveraged, on average,  
20 than the comparable companies in the industry. The leverage of the new stand-alone  
21 company is quite comparable to that found in the capital structures of other companies in

---

<sup>1</sup> For example, page 15 line 15 (...large amount of debt...), page 14 line 16 (...heavy debt load...), page 13 line 19-20 (...highly leveraged capital structure.. ).

1 the industry, as discussed Direct Testimony and attachment of Mr. Collins of Houlihan  
2 Lokey. This fact is important because, as discussed elsewhere in this testimony, the act  
3 of separating the local operations into a stand-alone corporation requires the re-  
4 capitalization of the LTD Holding Company as a new, unique entity. At the end of the  
5 day, LTD Holding Company should have leverage and a capital structure that is  
6 reasonable and reasonably similar to comparable firms in its respective industry. The  
7 proposed equity-to-capital ratio for the LTD Holding Company is [BEGIN  
8 CONFIDENTIAL] [END CONFIDENTIAL]. The average equity-to-capital  
9 ratio of the six comparable firms as contained in Mr. Collins' analysis is approximately  
10 54%. In fact, looking at Mr. Collins' analysis, if one examines the two comparable firms  
11 which come closest to the size and scale of the LTD Holding Company (Citizens and  
12 CenturyTel), the average of those two firms' equity-to-capital ratios is 56%, [BEGIN  
13 CONFIDENTIAL]  
14 [END CONFIDENTIAL]

15  
16 ***SECTION III: MS. GOLDMAN AND FINANCIAL RESTRICTIONS***

17  
18 ***At several points in her testimony Ms. Goldman also discusses what she considers***  
19 ***restrictions of the use of cash that the LTD Holding Company faces.<sup>2</sup> Are her***  
20 ***observations correct?***  
21

---

<sup>2</sup> See Confidential Direct Testimony at page 12 lines 5-6 , 20-21.

1 No. It appears that Ms. Goldman believes that excess cash must be used to reduce  
2 principal on debt. This is an incorrect assumption. As referenced in the testimony of  
3 witness Kent Dickerson, there are no restrictions on what LTD can or may do with its  
4 cash. LTD is not obligated in any way to use excess cash to pay down its debt. There is  
5 no requirement or condition for LTD Holding Company to use excess cash balances to  
6 pay down debt. Paying down debt is one option available to LTD Holding Company, but  
7 it is certainly not the only option. There may be many better uses for any available cash  
8 balances. For example, if there is a new business endeavor that would potentially  
9 produce a higher return (that is, higher than the cost of debt), then any available cash  
10 would clearly be more efficiently used in that business endeavor, rather than in paying  
11 down debt. In fact, it is possible that such a scenario—a business opportunity that offers  
12 a better use for discretionary cash than retiring debt—would produce an expansion in  
13 capital spending for LTD Holding Company. As referenced in Mr. Dickerson's  
14 testimony, it is entirely possible that LTD Holding Company's best business decision  
15 could be to maintain relative amounts of debt—particularly at these low costs—and use  
16 any excess cash for the development of new products, services, or infrastructure that  
17 enhance its core business.

18  
19 ***Does this incorrect assumption—that LTD Holding Company must use excess cash to***  
20 ***pay down its debt—lead Ms. Goldman to make other incorrect assumptions?***  
21

1 Yes. She suggests that, because of this debt and its purported “restrictions”, LTD will  
2 have limited financial flexibility to maintain and grow the business and take advantage of  
3 opportunities as they arise (Confidential Direct Testimony at page 15, lines 15-18). This  
4 statement is simply factually incorrect. We know this by examining the interest coverage  
5 ratio for LTD, which measures the ability of a firm to use its earnings to cover its interest  
6 obligations. The higher an interest coverage ratio, the more flexibility a firm has  
7 regarding how it wants to use its earnings. This measure for LTD and comparable  
8 companies is also found on page 7 of the Houlihan Lokey “Report to Sprint Nextel  
9 Corporation”. Looking at that, we can see that the interest coverage ratio for LTD is  
10 almost twice as high as the average for comparable companies. This shows that LTD  
11 Holding Company will have, on average, more resources and more flexibility than  
12 comparable firms in the industry, certainly not less.

13  
14 ***SECTION III: MS. GOLDMAN AND THE “PURCHASE” OF LTD ASSETS***  
15

16 **Q. On page 4 of her Confidential Direct Testimony, Ms. Goldman discusses what she**  
17 **characterizes as a purchase of assets. Please comment on her discussion.**

18 **A.** On that page of her testimony, lines 7-8, Ms. Goldman writes the following words: “LTD  
19 will use all of the newly issued debt to pay Sprint Nextel for LTD’s assets.” It is possible  
20 to respond to this issue in two different ways. First, it is important to clarify that what  
21 Ms. Goldman characterizes as “LTD assets” are Sprint Nextel’s assets that ultimately roll  
22 up to the books of Sprint Nextel. The assets on the books of United Telephone –

1 Southeast, Inc. (“UTSE”) roll up to the books of LTD, which roll up to the books of  
2 Sprint Nextel. Similarly, the equity and liabilities of UTSE roll up as well. Following  
3 the separation there will be a new, distinct corporation formed (LTD Holding Company)  
4 which will have—in addition to a separate Board of Directors, management team, stock  
5 listing, etc.—its own separate assets, what Ms. Goldman calls the “LTD assets”. In fact,  
6 those assets will have been contributed to the new company by Sprint Nextel. And it will  
7 have its own liabilities: the debt discussed above. As mentioned above, what will have  
8 been accomplished is the re-capitalization of a unique, distinct company in such a way as  
9 to produce a reasonable capital structure, one that is neither over-leveraged nor under-  
10 leveraged, and one that is comparable to other industry participants. The allocation of  
11 assets and debt are indeed equitable, fair, reasonable, and appropriate. The LTD Holding  
12 Company will have all of the assets it requires to succeed in the business in which it  
13 operates. It will have an appropriate amount of leverage that allows the company to  
14 minimize its cost of capital and maximize the value of the firm. Ms. Goldman has  
15 provided zero evidence to the contrary.

16  
17 **Q. You indicated that this issue could be looked at in two different ways. What is the**  
18 **second way?**

19 A. Ms. Goldman’s reference to “paying” for assets, combined with the slightly  
20 sensationalistic question posed on page 4 of Ms. Goldman’s testimony (“Do I understand  
21 you correctly? LTD will pay Sprint Nextel for the LTD assets?”) suggest that Ms.  
22 Goldman believes some type of purchase is taking place. Technically a purchase is not

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1 taking place, but it can be useful to use such a mental construct to understand the nature  
2 of the transaction.

3  
4 As stated above, the assets that Ms. Goldman refers to as "LTD assets" in fact roll up to  
5 the books of Sprint Nextel. Upon separation those assets will no longer be on the books  
6 of, or roll up to, or be owned by, Sprint Nextel. They will be completely owned by the  
7 new local holding company, LTD Holding Company. It is possible to view the new notes  
8 and the proceeds of the bank debt as being used to "purchase" those assets. In fact, if  
9 Sprint's local operations were being sold to a third party it is extremely likely that the  
10 purchase would be financed, at least in part, in a very similar fashion; what is key,  
11 however, is that in such a case those proceeds would go to Sprint Nextel (i.e. the seller) --  
12 not to LTD, which is the company being purchased. If in fact, as Ms. Goldman suggests  
13 (page 23 of her Confidential Direct Testimony, lines 11-13), the proceeds should be  
14 retained by LTD Holding Company it would be akin to a buyer borrowing cash to buy a  
15 house, buying the house, but getting to keep all the cash as well.

16  
17 However, the pitfall of using this mental construct is that it tempts one to ask, "Haven't  
18 the Sprint Nextel local companies been paying for these assets all along?" The answer,  
19 of course, is no; when a subsidiary pays a dividend to its parent, a dividend which comes  
20 from cash flows that were a result of the subsidiary providing some good or service to  
21 end-users, the subsidiary is not purchasing itself.

1 The characterization of a “purchase” is also technically incorrect because it suggests there  
2 are two unique sides or parties involved. There are not. Sprint Nextel *shareholders*  
3 currently own all the Sprint Nextel assets, including the local telephone company assets,  
4 as well as all liabilities. Upon separation, the same set of shareholders will still own the  
5 same set of assets (and liabilities). They will simply own them in two distinct  
6 corporations.

7  
8 ***SECTION IV: MS. GOLDMAN AND INDICATIVE RATINGS***

9  
10 **Q. On pages 13 and 14 of her Confidential Direct Testimony, Ms. Goldman suggests**  
11 **that the major bond rating agencies have reacted negatively to the LTD Holding**  
12 **Company’s proposed capital structure. Is her observation correct?**

13 **A.** No it is not. Ms. Goldman’s discussion of the bond rating agencies’ opinions makes the  
14 error of confusing concerns about the local exchange carrier (“LEC”) industry as a whole  
15 with concerns about LTD Holding Company’s specific capital structure. For example, on  
16 page 13 Ms. Goldman includes a quote from **[BEGIN CONFIDENTIAL]**

17 **[END CONFIDENTIAL]** available to  
18 LTD Holding Company. It is true that Fitch’s letter makes this reference, but the  
19 reference has nothing to do with LTD Holding Company’s relative amounts of debt and  
20 equity. In fact, the paragraph from which Ms. Goldman’s quote is taken does not include  
21 a single reference to debt, equity, leverage, or any other aspect of capital structure. In  
22 addition, the Fitch letter goes on to state that **[BEGIN CONFIDENTIAL]**

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**[END CONFIDENTIAL].** Ms.

Goldman is simply incorrect to suggest that Fitch is concerned about LTD Holding Company’s capital structure.

Similarly, the Moody’s letter that Ms. Goldman cites on page 13 states quite clearly that **[BEGIN CONFIDENTIAL]**

**[END CONFIDENTIAL]**

Finally, it is most interesting that on page 13 Ms. Goldman also quotes from the S&P letter that was provided in response to a CWA data request that Ms. Goldman includes as an attachment to her testimony. The reason this is interesting is that Sprint Nextel’s response to discovery stated quite clearly that **[BEGIN CONFIDENTIAL]**

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21

[END CONFIDENTIAL]

More importantly, in the same data request response, Sprint explained that [BEGIN  
CONFIDENTIAL]

[END CONFIDENTIAL]

This fact is echoed in a more recent press release from S&P dated November 10, 2005, and included with this testimony as Attachment BKS-1. In that press release S&P precisely echoes the statements included above. S&P writes, “Despite the relatively moderate proposed capital structure, strong EBITDA margins, and good discretionary cash flow characteristics, we are concerned about industry-wide business risk...” The statement could not be clearer; it is not the proposed capital structure of LTD Holding Company that S&P has concerns about. Rather, it is the industry in which we operate.

1 In summary, it appears that Ms. Goldman would have the Authority believe that the  
2 capital structure and relative debt ratio of LTD Holding Company, as contained in the  
3 Application, have been negatively received by the major bond rating agencies. This is  
4 not true. As discussed in the testimony and attachments of witness Kevin P. Collins, the  
5 capital structure and associated metrics are in line with the metrics of comparable firms.

6 In fact, Fitch concluded its analysis with the following statement: **[BEGIN**  
7 **CONFIDENTIAL]**

8  
9  
10 **[END CONFIDENTIAL]**  
11

12 ***SECTION V: MS. GOLDMAN AND NEGATIVE BOOK EQUITY***

13  
14 **Q. On pages 14-15 of her Confidential Direct Testimony, Ms. Goldman raises the issue**  
15 **of negative book equity, and specifically states that investors will be concerned by**  
16 **the existence of negative equity on the books. She states that if the company were to**  
17 **go bankrupt, shareholders would be left with nothing. Please respond to these**  
18 **claims.**

19 **A. First, as explained in the testimony of Mr. Kevin Collins, negative book equity is often a**  
20 **function of accounting conventions, and does not reflect a company's value. Ms.**  
21 **Goldman's discussion of the impact of negative book equity on pages 14-15 contains no**  
22 **facts, and is nothing but conjecture. She suggests that it will be difficult to raise investor**

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1 capital and describes a generic scenario in which (she claims) the company could go  
2 bankrupt, but she offers no reason as to why the scenario should be considered plausible  
3 or even remotely possible.  
4

5 The point that Ms. Goldman conveniently ignores is that the existence of positive book  
6 equity does not change her doomsday scenario in any way. If the transaction before the  
7 Authority was a sale, rather than a separation, the books of the LTD Holding Company  
8 would reflect billions of dollars of intangible goodwill, and book equity would be  
9 positive. In fact, of the six comparable companies contained in the Houlihan Lokey  
10 analysis, five of the six would have negative book equity were it not for the intangible  
11 goodwill on their balance sheets. They have positive book equity only because they have  
12 goodwill on their balance sheets. Of course, this goodwill mean nothing in the case of  
13 Ms. Goldman's doomsday scenario where a company (for some unknown reason) goes  
14 bankrupt. In the case of a bankruptcy, investors receiving nothing for goodwill. The  
15 point here is: Ms. Goldman's concern appears to be that negative equity would leave  
16 shareholders with nothing. In reality, the positive book equity on the books of the  
17 majority of comparable companies would also leave shareholders with nothing.  
18 Therefore, contrary to Ms. Goldman's claims, the hypothetical "concern" that she cites  
19 on page 14 is not a function of negative book equity, and is no more applicable to LTD ,  
20 Holding Company than to the majority of comparable firms identified in the Houlihan  
21 Lokey study.  
22

1 It is also worth noting that the letters from bond rating agencies that Ms. Goldman  
2 references in her testimony make no mention of any concern regarding book equity  
3 levels. Each of the agencies discusses the existing risks associated with the incumbent  
4 LEC business, and each of them was presented with information outlining the fact that  
5 LTD Holding Company would have negative equity on its books. Yet none comes to the  
6 same tragic conclusion that Ms. Goldman does regarding the “impact” of negative book  
7 equity. It is also worth noting that the *reason* Sprint Nextel has actively pursued the  
8 characteristics associated with investment grade ratings for its debt—as reflected in the  
9 indicative ratings—is to ensure that it is an attractive option for investors, and therefore  
10 will continue to be able to attract capital if the need exists.

11  
12 ***SECTION VI: SUMMARY OF RESPONSE TO MS. GOLDMAN***  
13

14 **Q. Please summarize your response to Ms. Goldman’s testimony.**

15 A. Regarding Sprint’s letter to the FCC, Ms. Goldman is incorrect when she suggests that  
16 the debt and asset allocation are not fair and equitable. The proposed capital structure  
17 that is before the Authority is appropriate, reasonable, and comparable to other  
18 companies in the industry. Furthermore it achieves the goals of lowering the company’s  
19 cost of capital and increasing the value of the firm. Ms. Goldman’s concerns regarding  
20 negative book equity are misplaced, and supported only by undocumented conjecture.  
21 And her characterization of letters from the major credit rating agencies is misleading.  
22 The agencies have concerns regarding the LEC industry, given increased competition, but

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1       these concerns will exist for LTD Holding Company whether it operates on its own or as  
2       part of a larger, nationwide, wireless-focused entity. The real question before this  
3       Authority is whether UTSE and LTD Holding Company will be better situated to face  
4       this increased competition on their own, where they have the flexibility, autonomy, and  
5       independence to meet their local customers' needs unencumbered by the demands of a  
6       larger carrier. The answer is clearly yes. The Authority should approve the proposed  
7       separation without any of the the conditions suggested by Ms. Goldman.

8  
9       **Q.     Does this conclude your Rebuttal Testimony?**

10      **A.     Yes it does.**

ATTACHMENT BKS-1

Press Release from S&P Dated November 10, 2005

\*\*\* PUBLIC \*\*\*



Credit Ratings - Credit Ratings Actions

CLOSE

Credit Ratings &gt;&gt;&gt; Telecommunications Services



## Sprint Nextel Corp. Ratings For Local Division Remain On CreditWatch Negative

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NEW YORK (Standard & Poor's) Nov. 10, 2005--Standard & Poor's Ratings Services said today that its ratings on the debt of the local telephone division (Sprint Local) of Sprint Nextel Corp remain on CreditWatch with negative implications. The local division is composed of Centel Corp. (BBB-/Watch Neg/--), Centel Capital Corp. (BBB-/Watch Neg/--), Central Telephone Co. (BBB-/Watch Neg/--), Sprint - Florida, Inc. (BBB-/Watch Neg/--), and Carolina Telephone & Telegraph Co. (BBB-/Watch Neg/--). The implications were revised to negative from developing on Aug. 4, 2005, reflecting the potential that this entity could be rated below investment grade after its spin-off from Sprint Nextel.

"Despite the relatively moderate proposed capital structure, strong EBITDA margins, and good discretionary cash flow characteristics, we are concerned about industry-wide business risk from rising cable telephony and wireless substitution, which could eventually weaken the financial profile," said Standard & Poor's credit analyst Eric Geil. Sprint Nextel expects to complete the transaction in the second quarter of 2006 and has indicated that the standalone company will have about \$7.25 billion in debt, including roughly \$700 million in existing debt, and will pay \$300 million in annual dividends. The resulting debt to EBITDA will be about 2.5x, excluding any adjustments for operating leases or unfunded pension and other postretirement employee benefit obligations.

Sprint Local serves about 7.4 million switched access lines, making it the largest independent local phone company behind the regional Bell operating companies. About one third of access lines are in densely populated areas with more than 300 lines per square mile in such markets as Las Vegas, Nev., and Orlando, Tallahassee, and Naples, Fla. The rest are in less competitive mid-size and smaller markets.

Complete ratings information is available to subscribers of RatingsDirect, Standard & Poor's Web-based credit analysis system, at [www.ratingsdirect.com](http://www.ratingsdirect.com). All ratings referenced herein can be found on Standard & Poor's public Web site at [www.standardandpoors.com](http://www.standardandpoors.com), under Credit Ratings in the left navigation bar, select Find a Rating, then Credit Ratings Search.

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